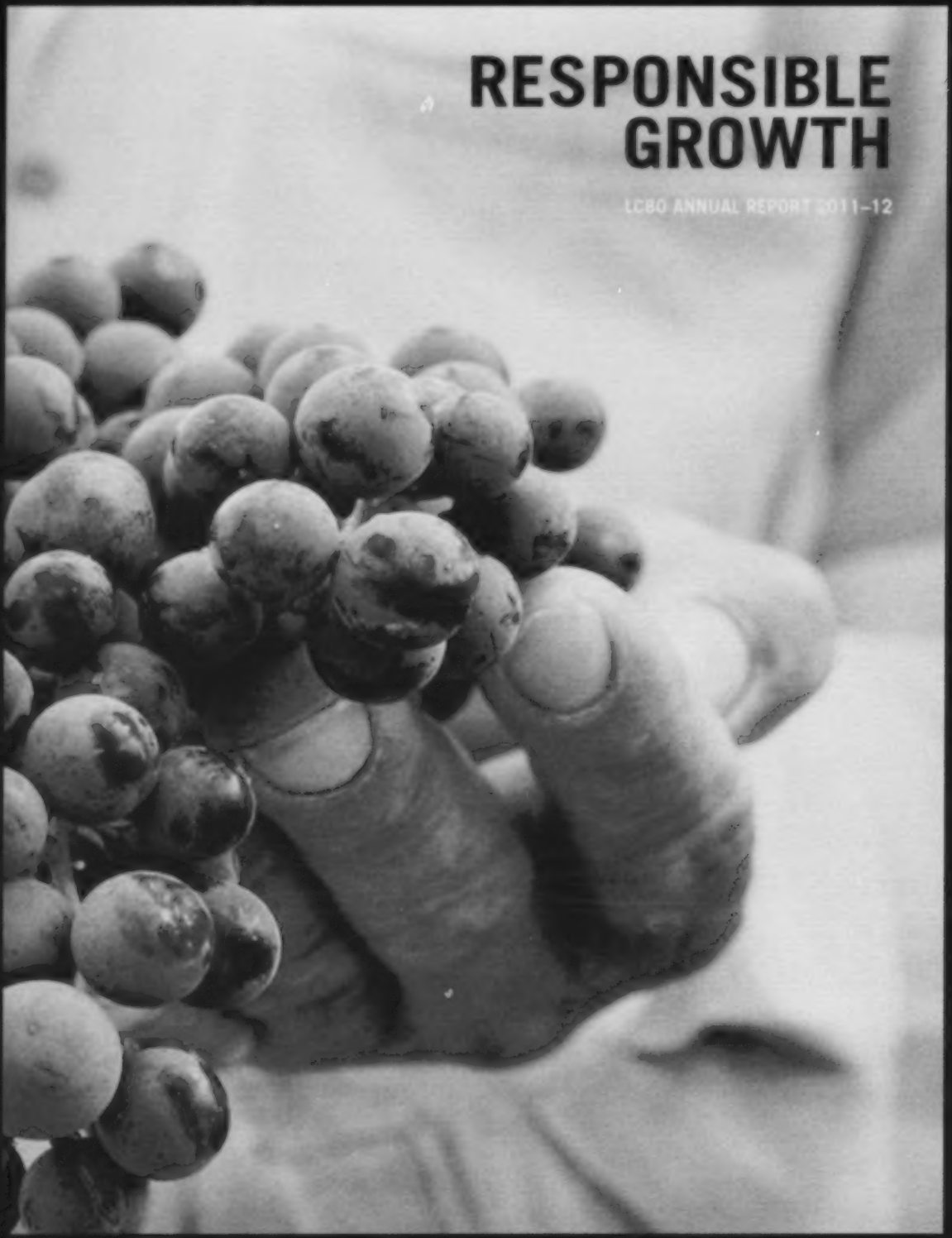

RESPONSIBLE GROWTH

LCBO ANNUAL REPORT 2011–12

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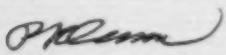
LETTER OF TRANSMITTAL

The Honourable Dwight Duncan
Minister of Finance

Dear Minister,

I have the honour to present you with the 2011–12 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

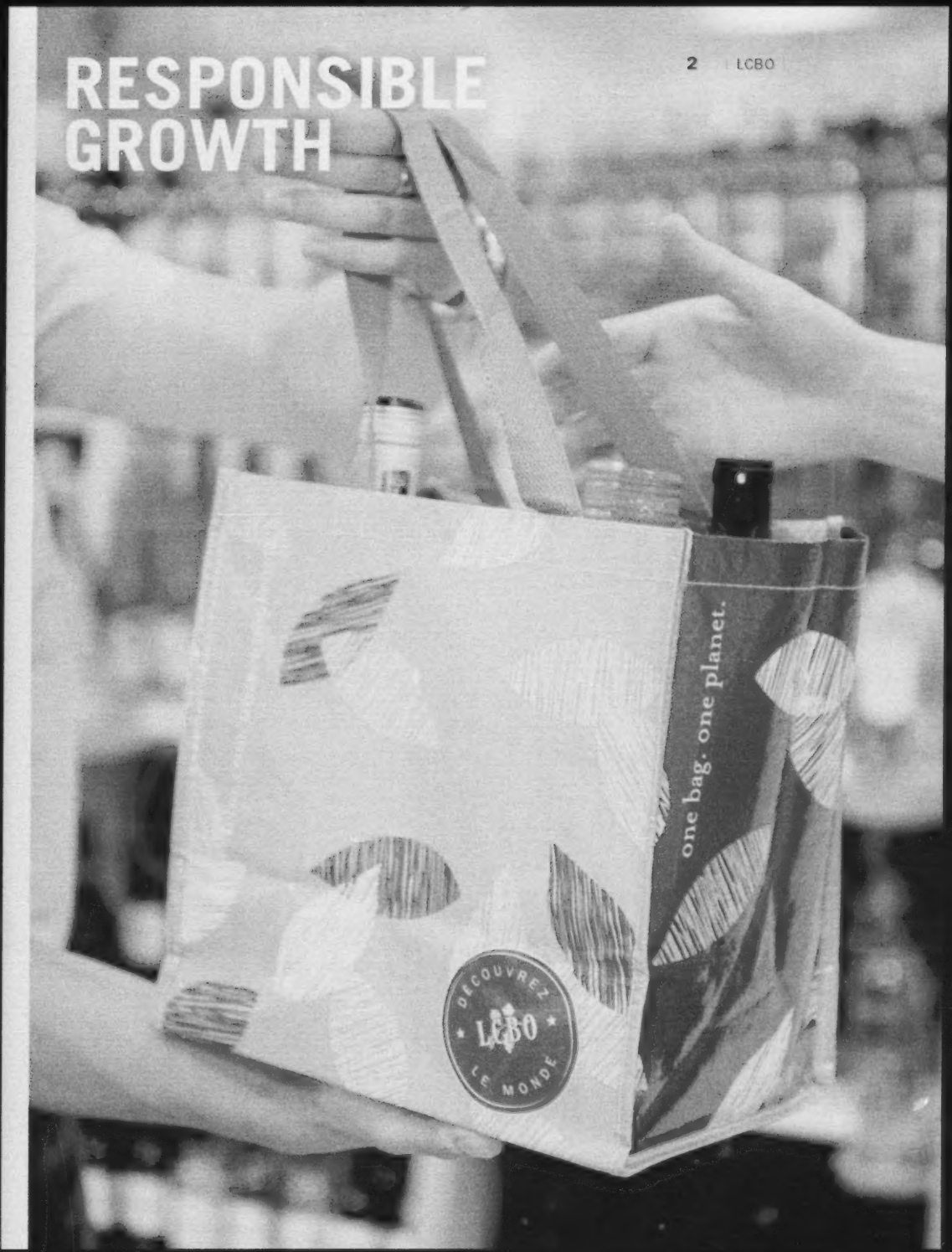


Philip J. Olsson,
Chair

HIGHLIGHTS

Dividend transfer to government	**$1.63** *billion*
Revenues	**$4.71** *billion*
Net earnings	**$1.66** *billion*
Total transactions	**124.5** *million*
Customer satisfaction	**84** *per cent*
Total fundraising	**$6.2** *million*
VQA table wine sales increase	**9** *per cent*
Ontario Craft Brewers (OCB) members sales increase	**45** *per cent*
Beverage alcohol containers returned through Ontario Deposit Return Program (ODRP) since 2007	**1.3** *billion*
Combined (ODRP and Blue Box) beverage alcohol container diversion rate	**93** *per cent*
New stores, expansions and relocations	**15**
Quality Assurance lab tests	**514,471**
Number of countries we buy products from	**84**
Total challenges for all reasons	**6.3** *million*
Total refusals for all reasons	**290,338**

RESPONSIBLE GROWTH



OVER THE LAST FIVE YEARS, THE LCBO HAS RAISED THE AMOUNT IT TRANSFERS TO THE PROVINCE BY $350 MILLION, A 28 PER CENT INCREASE, TO HELP THE GOVERNMENT FUND ITS KEY PRIORITIES.

We are a responsible retailer in more ways than one – balancing the needs of stakeholders, customers, employees, suppliers and the environment. We don't consider responsibility and growth to be mutually exclusive. The LCBO has a mandate to promote social responsibility in the consumption of alcohol, and also to deliver revenue for the province of Ontario, to help fund important government priorities such as health care, education and investment in public infrastructure.

RESPONSIBILITY TO STAKEHOLDERS

In an economic environment far from ideal for the retail industry in 2011–12, the organization was severely tested. Consumers remained cautious amid global financial uncertainty. Customers continued to focus on value at all price points. Yet, consistent with past performance, the LCBO delivered stronger financial results than the Ontario retail marketplace as a whole, and demonstrated the flexibility to quickly and effectively adapt to the challenging economic circumstances, while maintaining high levels of customer service.

We initiated tighter expense controls across the organization without compromising the needs of customers. Through operational efficiencies, effective marketing and the use of new technologies to increase capacity in our distribution facilities, we improved our productivity and performance. With more capital available to upgrade and expand our store network, we provided customers with more convenience and access and, ultimately, improved sales for the organization.

The result was an 18th record dividend of $1.63 billion to the province. Over the last five years, the LCBO has raised the amount it transfers to the province by $350 million, a 28 per cent increase, to help the government fund its key priorities.

RESPONSIBILITY TO CUSTOMERS

Social responsibility remains the LCBO's main reason for being. At the heart of our commitment is the *Challenge & Refusal* program, which keeps beverage alcohol out of the hands of minors and those that appear intoxicated. We have ensured that all frontline and newly-hired staff members are trained on the current program, *Challenge & Refusal: It's not personal. It's the Law.* Program updates and regular refreshers have supported staff in being vigilant in implementing LCBO's *Check 25* program. Since 2006, the number of annual challenges has tripled to 6.3 million and the number of people refused service has doubled to more than 290,000.

In addition, the organization continued to provide excellent customer service through product selection, value and knowledgeable staff. Customer satisfaction rose to 84 per cent in 2011–12, up from 74 per cent in 2006–07. Continued investment in the product knowledge of our staff is vital to boosting this level even higher in the future. Our product advocate programs will not only deliver enhanced staff knowledge, but broaden support for Ontario's vintners, brewers, and distillers. Sales of Ontario VQA wines are up more than 100 per cent since 2006–07 and Ontario Craft Brewers member sales are up more than 400 per cent in the same period.

RESPONSIBILITY TO EMPLOYEES

The creation of a *Work Smart, Work Safe* culture in the workplace speaks to the importance of the health and safety of employees to the LCBO. At the retail level, 330 stores recorded zero lost-time accidents during the year, and this rate is expected to improve going forward as a new lightweight glass standard reduces case weights and more vacuum-lift and lift-table systems are installed across the store network. The Logistics division achieved a 50 per cent reduction in lost-time injuries as a result of destuffing platforms and automated palletizers installed in London and Durham retail service centres to reduce the incidents of muscular and skeletal injuries.

We are ensuring that all staff, including younger workers, are provided with a full range of training and certification programs required to reinforce our safety first culture. All employees have a responsibility to promote and practice health and safety, and our new safety mascot, *Buzz Safely*, serves as a friendly reminder to staff to *Work Smart, Work Safe* every day.

RESPONSIBILITY TO THE ENVIRONMENT

The LCBO is also committed to environmental sustainability and published its second comprehensive online Sustainability Report in 2011–12. A prime example of this commitment to reduce the organization's environmental footprint is the Ontario Deposit Return Program (ODRP). Before 2007, alcoholic beverage containers were recycled through Blue Box programs. The diversion rate from landfills was 69 per cent. Since the Ontario Deposit Return Program was introduced, the combined rate of diversion between ODRP and Blue Box programs is now 93 per cent, which we believe is among the best diversion rates for wine and spirits containers in the world.

RESPONSIBILITY TO THE COMMUNITY

Fundraising has long been an important part of the organization's culture, bringing customers and employees together for causes they care about. In 2011–12, more than $6 million was raised for the United Way, MADD Canada, four Ontario children's hospitals and other charitable organizations. That's four times more than what was raised in 2006. With $2.5 million raised for the United Way alone, the LCBO is the largest contributor to that charity across the Ontario Public Service.

MESSAGE FROM THE MINISTER

The McGuinty government is focused on eliminating the deficit to build a stronger Ontario economy – one that creates jobs, attracts investment and supports quality public services. Agencies such as the LCBO are integral to our province's success.

In 2011–2012, the LCBO recorded another successful year thanks to prudent management – balancing the needs of customers with operational efficiency and maintaining strict expense controls. The result was a record dividend transfer to the government of $1.63 billion, $80 million more than the previous year.

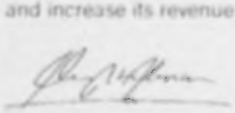
In its report, the Commission on the Reform of Ontario's Public Services recognized the LCBO as an important public asset that, with some regulatory or policy changes, could contribute even more revenue to help pay for provincial services and programs. We agree and that is why the government is working closely with the LCBO to create opportunities that will generate more funds while maintaining its focus on responsible customer service.

We have endorsed an accelerated store expansion program that will result in more income for the province in the years ahead. The LCBO is planning to open 30 to 35 new, relocated or expanded stores in the coming year, which is twice its recent annual rate of expansion. This program better aligns the LCBO's store network with Ontario's population growth. We are also discussing some additional revenue-generating initiatives, notably in Retail and Logistics, as well as the sale of the LCBO head office lands.

This government applauds the LCBO's ongoing efforts to promote social responsibility. The *Challenge & Refusal* and *Check 25* programs help keep alcohol out of the hands of minors. The LCBO is dedicated to energy-efficient store construction and green initiatives have diverted 1.3 billion containers from landfills over the last five years. The *Deflate the Elephant* campaign continues to spread the word against drinking and driving and promote responsible hosting.

The LCBO's Board of Directors, under the guidance of Chair Philip Olsson, and the management team, led by President & CEO Bob Peter, have worked diligently to earn the public's trust. This government recognizes the work done by the LCBO to distinguish itself as a customer-focused retailer and strong supporter of the local wine, craft beer and spirits industries.

I am confident that the LCBO will continue to meet its financial targets, grow responsibly and increase its revenue stream for the benefit of all Ontarians.



The Honourable **Dwight Duncan**,
Minister of Finance

MESSAGE FROM THE CHAIR

WE BELIEVE IN RESPONSIBLE GROWTH – BALANCING EXCELLENCE IN THE CUSTOMER EXPERIENCE AND OPERATIONAL EFFICIENCY WITH SOCIALLY-RESPONSIBLE SERVICE.

THE LCBO HAS CHANGED FOR THE BETTER IN MANY WAYS OVER THE YEARS.

The growth of the store network, the broadening of the product offerings, the increased support for local Ontario beverage alcohol producers, the introduction of lifestyle marketing and the modernization of the supply chain are all evidence of LCBO's ongoing evolution from control-oriented distributor to customer-focused retailer. These, and many other accomplishments, are a great source of staff pride.

But I am most proud of something that has not changed – the LCBO's founding principle – responsible retailing.

It has always been our mission to grow the business while ensuring beverage alcohol is sold responsibly. We believe in responsible growth – balancing excellence in the customer experience and operational efficiency with socially-responsible service. And we did so again in 2011-12, delivering another record dividend to the government totaling $1.63 billion, an increase of 5.2 per cent from the previous year. Our profits help fund schools, hospitals and investment in job creation and growth.

The LCBO is a pioneer in the area of social responsibility. While it has often been an "if" for the business sector, social responsibility has been a "must" for the LCBO since its inception in 1927.

Retailers that are averse to change or unwilling to evolve and adapt do not stay open for business very long. The unprecedented change the Canadian retail landscape has witnessed in recent years has only reinforced the importance of maintaining flexibility in operating plans and being able to move quickly on new initiatives. But being responsible is as relevant to us today as it was more than eight decades ago. In this respect we will never change.

Change at the Board level is another reality we must deal with and as valued members depart and new faces come aboard, I am committed to maintaining a diverse and experienced Board. This year, we said goodbye to Steve Diamond and Geoffrey Lerner and I thank them for their important contributions through many years of service.

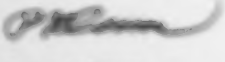
The LCBO's open and transparent communication with our owner, the Ontario government, benefits everyone. As the LCBO has achieved a greater understanding of the government's priorities and goals, we have gained the government's support to further improve the business, which is a major validation of the good work accomplished across the organization. We would not have earned the government's support if we did not respond well to public policy issues, manage risk well and, most importantly, demonstrate expertise in strategic planning and retail.

Regular communication with the government will remain critical. The government has high expectations of us and I am confident our people are up to the challenge of meeting its revenue-generation needs. In each of the next two years, up to $30 million more will be invested in store expansion to help the government realize increased profits at a faster rate. As a result, it will be a priority for the Board throughout the year to keep a close eye on any strains this accelerated store expansion program could put on the LCBO and its operations.

Another priority for the Board in the coming year will be to focus on further improving risk management and oversight of the organization. We have done a good job in this area but there is always room for improvement.

The past year was also record breaking in another respect – fundraising. A total of $2.5 million was raised for the 2011 corporate United Way campaign, a cause that is particularly close to my heart. That is an increase of $400,000 from the previous year. This successful effort would not have been possible without the generosity and goodwill of our customers, employees and the many fundraising events that took place in communities across Ontario.

While the year 2012–13 poses continued economic uncertainty, the Board has the utmost confidence that LCBO senior management has the right plans in place and the flexibility to navigate the organization through these challenges to another successful year. We will continue to act as a guide to management to ensure we operate with excellence at every level. Beverage alcohol products are what we sell, but responsible growth is our business.



Philip J. Shook
Chair

MESSAGE FROM THE PRESIDENT & CEO

Responsibility has always been an integral part of the LCBO's reason for being. It began with a responsibility to control the sale of alcohol and now applies to everything we do. There's the responsibility to keep beverage alcohol out of the hands of minors and those that appear intoxicated, the responsibility to maximize profits and operate efficiently, the responsibility to protect the health and safety of our employees, and the responsibility to do – not just to take care of the environment.

All decisions for the good of the organization must be carefully balanced against the potential impact outside the organization. That makes responsible growth our only option.

Providing customers with excellent service while keeping operational expenses under control are equally important objectives and critical to our mandate. And I am pleased to report we were successful at both efforts in 2011-12. It was a challenging year in many respects, particularly from an economic standpoint, but the LCBO still delivered solid results. We posted revenue growth of 6.3 per cent, above provincial retail sales growth of 5.0 per cent. Generating revenue in excess of $8.7 billion, we transferred a... (80¢ record dividend – $1.53 billion – to the government to help pay for important services valued by Ontarians, such as schools and hospitals.

Though expenses rose during the year, they were nearly $6 million below plan, in an effort to align our expenses with sales, we lowered planned spending in the Sales & Marketing division and cut administrative expenses. In addition, the 2011-12 operating expense to revenue ratio was 15.7 per cent – the lowest level recorded in the past five years.

Investing in our store network remains a priority. We built, relocated or expanded a total of 15 stores in 2011-12 and renovated 61 others. These stores increased customer convenience and access and resulted in additional sales. New products enhanced the breadth of our selection while we continued to provide innovative marketing and engaging – yet responsible – customer service.

In our most recent annual Customer Tracking Study, the LCBO scored a new record of 84 per cent in customer satisfaction. That means 84 per cent of the 2,000-plus customers taking part in the survey rated their overall shopping experience an 8, 9 or 10 out of 10. I thank all our employees who worked hard to make this possible.

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[illegible]
[illegible]
[illegible]
[illegible]

[illegible] [illegible]

Providing responsible service is one of the most challenging duties we ask of our frontline employees. But they handle this challenge diligently and professionally. [illegible] kept AAP challenges to 3 million — [illegible] for reasons of age, suspected alcohol purchase, or for suspected intoxication during the year. Of those more than 200,000 were refused service, with age accounting for 60 per cent of the refusals. We re-launched our Check ID program which asks customers who appear to be under 25 for age identification, and supported it with seasonal [illegible]. According to third-party research, our anti-drinking and driving ZARMA the Elephant campaign is having its desired effect in that three-quarters of consumers believe the [illegible] is effective at promoting the responsible consumption of alcohol.

On the environmental front, the [illegible] continues its leadership role in migrating wine bottles to lightweight glass. In June 2011, we pledged that almost all wine products costing less than $10 would be available in bottles that were determined to be the reasonable maximum weight – 600 grams. And we are on track to make this a reality by January 2013.

We are fortunate to employ people across the organization with a passion for giving and helping. With the generosity of our customers, we raised a new record total of $6.2 million for worthy causes in 2011. [illegible], with $5.7 million raised through in-store fundraising. The [illegible] has never been more active in raising money to help our communities and our neighbours.

The [illegible] has a busy year ahead. With 34 new and expanded stores on the schedule for 2012, [illegible] double the traditional growth rate in recent years – the store network is expected to post its largest, single-year increase ever in its history. This activity is part of an expanded program that will see new stores added in under-serviced urban areas as well as smaller, high-growth communities.

There are plenty of other initiatives underway. We are expanding our marketing efforts to include social media, selling [illegible] lines through additional third-party partnerships, introducing new logistical capabilities to better service our stores, suppliers and wholesale customers, and raising the bar on health and safety with new technologies and initiatives, such as the lightweight glass standard to reduce case weights.

This is a truly exciting time at the [illegible]. We are in the first year of a five-year strategic plan that will give rise to a new three-year plan. We are growing the business while keeping expenses under control. We are handling more product through our warehouse facilities but reducing lost-time injuries. We are enhancing the customer experience while promoting responsible consumption. While we work hard to expand our revenues to assist the government and the public, nothing will detract us from our longstanding commitment to social responsibility.

[illegible]

[illegible]
President & CEO

CORPORATE STRUCTURE

The LCBO is a Crown agency reporting to the Minister of Finance and is classified by the Ontario government as an operational enterprise.

The LCBO is overseen by a Board of Directors consisting of up to 11 members appointed by the Lieutenant-Governor-in-Council, on the recommendation of the Premier of Ontario and the Minister of Finance, for terms of no more than five years. The chair of the Board of Directors is responsible for providing strategic leadership to its members and to the president & CEO and making sure the LCBO and its Board of Directors meet their respective responsibilities.

The mandate of the Board is to oversee the management of the business affairs of the LCBO. Among its most important responsibilities are to:

- ensure that policies and processes are in place to maintain the integrity of the LCBO's internal controls
- establish by-laws governing the operations of the LCBO
- approve both the three-year strategic plan and annual business plans and monitor management's success in meeting the objectives set out in these plans
- submit annual financial plans and business plans to the Minister of Finance
- ensure the LCBO has an appropriate communications policy
- ensure the LCBO operates in a fair, ethical and impartial manner and in accordance with applicable laws
- establish and oversee senior management succession planning
- approve major policy and business decisions
- assess and evaluate annually the performance of the president & CEO
- establish committees of the Board as appropriate to exercise some or all of the Board's responsibilities; presently this includes an audit committee and a governance and compensation committee.

ETHICS AND BUSINESS CONDUCT

The Board has adopted a code of conduct that includes policies addressing human rights, conflict of interest, confidentiality, the outside activities of employees and officers, gifts and entertainment.

MISSION STATEMENT

WE ARE A SOCIALLY RESPONSIBLE, PERFORMANCE-DRIVEN, INNOVATIVE AND PROFITABLE RETAILER, ENGAGING OUR CUSTOMERS IN A DISCOVERY EXPERIENCE OF THE WORLD OF BEVERAGE ALCOHOL.

HEALTH AND SAFETY

The Board approves an annual health and safety policy and the senior vice-president, Human Resources, provides the Board with regular health and safety reports.

BOARD COMMITTEES

Audit Committee

The audit committee is responsible for the reliability and accuracy of the LCBO's financial statements and for overseeing the LCBO's risk management function.

Governance and Compensation Committee

The governance and compensation committee is responsible for recommending the LCBO's corporate governance policies and practices to the Board and ensuring the LCBO adheres to sound corporate governance principles. It also makes recommendations concerning human resources and compensation matters.

MANAGEMENT COMMITTEES

Store Planning and Development Committee

This is a management committee that reviews real estate and leasing transactions and makes recommendations to the Board for final approval.

Listings Appeals Committee

This committee reviews supplier and agent appeals of business unit decisions concerning product listings.

Management Positions Evaluation Committee

This committee evaluates and rates management positions in the organization for purposes of determining appropriate pay classifications.

ACCOUNTABILITY

The LCBO is accountable to its stakeholders in a number of ways:

- its annual report is required to be tabled in the provincial legislature and is made available to all Ontarians in print or online at www.lcbo.com
- annual audits of LCBO financial statements are required by the *Liquor Control Act* and conducted by the Office of the Auditor General of Ontario
- public access to various records under the *Freedom of Information and Protection of Privacy Act*
- Board members must be appointed by Order-in-Council
- various statutory reporting requirements under the *Liquor Control Act* require the corporation to provide reports to the Minister of Finance and the Treasurer of Ontario
- the corporation is required to comply with applicable Management Board directives.

SENIOR MANAGEMENT TEAM

Day-to-day operations of the LCBO are overseen by the following members of senior management:

Bob Peter, president & chief executive officer
Alex Browning, senior vice-president, Finance & Administration, and chief financial officer[1]
Bob Clevely, senior vice-president, Retail Operations[2]
Bob Downey, senior vice-president, Sales & Marketing
Rob Dutton, senior vice-president, Finance & Administration and chief financial officer[3]
Roy Ecker, senior vice-president, Retail Operations[4]
Murray Kane, senior vice-president, Human Resources[5]
Hugh Kelly, senior vice-president, Information Technology
George Soleas, senior vice-president, Logistics/Quality Assurance
Penny Wyger, senior vice-president, general counsel and corporate secretary
Jackie Bonic, vice-president, Store Development and Real Estate
Nancy Cardinal, vice-president, Marketing & Customer Insights
Shari Mogk-Edwards, vice-president, Merchandising & VINTAGES[6]
Tom Wilson, vice-president, VINTAGES[7]
Bill Kennedy, executive director, Corporate Communications
Beili Wong, chief audit executive and executive director, Internal Audit
Patrick Ford, senior director, Policy & Government Relations
Shelley Sutton, director, Strategic Planning

1. *Retired March 2012*
2. *Effective April 2011*
3. *Effective January 2012*
4. *Retired April 2011*
5. *Retired July 2012*
6. *Effective September 2011*
7. *Retired August 2011*

BOARD MEMBERS

1. Philip J. Olsson **2.** Steve Diamond **3.** Geoffrey R. Larmer **4.** Penny Lipsett **5.** Pamela Livingstone **6.** Laurel Murray **7.** Susan Pigott **8.** Walter Sendzik **9.** Paul Sparkes **10.** Ramesh Srinivasan **11.** Harvey T. Strosberg

1

PHILIP J. OLSSON

He was appointed to the Board as vice chair in June, 2004, became acting chair and CEO on February 6, 2006, and non-executive chair (pursuant to the new *Liquor Control Act*) on March 7, 2007. Term expired March 5, 2012; it was renewed for a two-year term and expires March 4, 2014.

Mr. Olsson is a partner in K J Harrison & Partners Inc., a privately-held investment firm for private individuals. He is also chairman of Connaught Oil & Gas Limited, a private energy exploration and production firm. He has had a career of more than 30 years in finance as an investor and investment and commercial banker, including managing director, Private Equity, at Altamira Investment Services Inc., where he restructured and oversaw Altamira's private equity functions. Prior to that, he was managing director of Royal Bank Equity Partners Limited, the Royal Bank Financial Group's merchant banking unit and, before that, was vice chairman of RBC Dominion Securities, Canada's largest investment bank. Mr. Olsson holds BA and MBA degrees from Vanderbilt University, Nashville, Tennessee, and studied monetary economics as a postgraduate at the London School of Economics. He holds a CBV designation from the Canadian Institute of Chartered Business Valuators. He has long been active in community and civic affairs on behalf of such organizations as the United Way, the Shaw Festival, Trout Unlimited and the Atlantic Salmon Federation.

2

STEVE DIAMOND

Appointed September 21, 2005, and appointed vice chair March 7, 2007. He resigned in December 2011.

Mr. Diamond is currently president of Diamond Corp, a real estate development and consulting business, and is a director of Whitecastle Investments. Prior to entering the real estate business, Mr. Diamond was a partner at McCarthy Tetrault and head of its municipal and environmental law department. He also served as director of the firm. In his practice, he acted as counsel on some of the largest and most sophisticated projects that have been approved in the Greater Toronto Area for both private and public sector clients. Mr. Diamond is actively involved in the community as a committee member for the PAYE program (Partnership to Advance Youth Employment). Mr. Diamond received his LLB from the University of Western Ontario and was called to the Ontario bar in 1978. He gives back to the educational community through frequent lectures at local law schools and other educational organizations.

GEOFFREY R. LARMER

Appointed May 30, 2006. Term expired May 29, 2012. Member, Governance and Compensation Committee.

Mr. Larmer is president of Larmer Professional Corporation, North Bay, a law firm specializing in personal injury and insurance litigation. His practice gives him a unique perspective on social responsibility and liability, particularly in terms of underage alcohol consumption and the consequences of not drinking responsibly. His clients include victims of drinking and driving accidents. He graduated from the University of Western Ontario in 1989 with an honours degree in medical biophysics and, in 1992, with a bachelor of laws degree. He articled with Bereskin & Parr, Toronto, where he trained in intellectual property, patent, trademark, copyright and related licensing matters. He was called to the bar in 1994 and founded Larmer & Larmer Barristers, North Bay. Larmer Professional Corporation was formed in 2005. He is a member of Nipissing Law Association, Ontario Trial Lawyers Association and the Association of Trial Lawyers of America, and a former director and past president of the North Bay and District Humane Society.

PENNY LIPSETT

Appointed May 30, 2007. Term expires May 28, 2013. Chair, Governance and Compensation Committee.

Ms. Lipsett is an investor and government relations specialist. She spent much of her career in the political and business worlds. Following graduation from the University of Western Ontario, she worked as a special assistant on Parliament Hill in Ottawa during the Trudeau years. Following this and until 1992, she worked for Xerox Canada in increasingly responsible roles concluding with the management of all corporate affairs functions.

Ms. Lipsett has run her own consulting practice with a focus on investor and government relations since 1993. She is a member of the Board of Directors of the Bank of America, MBNA Canada Bank and Ontario Place Corporation.

5

PAMELA LIVINGSTONE

Appointed June 8, 2009. Term expired June 7, 2012 and was renewed for a two-year term. Member, Audit Committee.

Ms. Livingstone began her retail career at Sears Canada as a merchandise flow analyst in 1995. She progressively moved to positions of increasing responsibility, becoming a buyer of home products in 2000. Ms. Livingstone then moved onto becoming a national operations manager in 2007 where she was responsible for all inventory flow and processes for the company's multi-channel, home décor business. During her tenure at Sears, she acquired strengths in negotiating, leadership, process management, as well as coaching, mentoring and staff training. After 14 years, Ms. Livingstone took a position as a planning manager for the Home Outfitters, a division of the Hudson Bay Company, where she applied her knowledge of inventory flow management and budget building. In the fall of 2011, she joined Big Lots as a merchandise planning manager and has been instrumental in helping the company develop business plans to introduce the Big Lots chain into Canada.

Ms. Livingstone earned a master's degree in public administration at Queen's University and an honours BA at Wilfrid Laurier University. She also worked as an English teacher in Osaka, Japan for two years.

6

LAUREL MURRAY

Appointed August 8, 2005. Term expired August 7, 2012 and was renewed for a two-year term. Chair, Audit Committee.

Ms. Murray is a chartered accountant with more than 25 years of senior management experience in the private and public sectors. Since 2000, Ms. Murray has overseen her own management consulting firm. During the past 25 years, she has helped a number of private companies as well as federal and provincial agencies and ministries improve the way they manage risks, measure performance and improve accountability. Ms. Murray is a proponent of good governance and oversight. She is also the chair of the Audit Committee of the Office of the Privacy Commissioner of Canada and a member of the Audit Committee of the Office of the Commissioner of Official Languages. She was also the lead in developing the Treasury Board of Canada Secretariat's *Guidebook for Departmental Audit Committees*. She also has a keen interest in the environment. Her areas of expertise include: strategic planning and reporting; performance measurement; integrated risk management; financial management, accounting and auditing; financial systems; project management; program implementation and organizational design. She graduated with honours from Carleton University in 1986 with a bachelor of commerce degree. She received her chartered accountant designation from the Canadian Institute of Chartered Accountants in 1989. An active mother, wife and volunteer, Ms. Murray balances work and family while helping those in need in her community.

7

SUSAN PIGOTT

Appointed February 9, 2011. Term expires February 8, 2013. Member, Governance and Compensation Committee.

Ms. Pigott is the vice president, Communications and Community Engagement at the Centre for Addiction and Mental Health (CAMH) in Toronto. In June 2011, she was appointed to the Commission on the Reform of Ontario's Public Services which provided advice on how to deliver the most efficient and effective public services possible for people and families. She trained as a nurse at the Wellesley Hospital School of Nursing in Toronto and then worked as a registered nurse for 10 years in Toronto, Australia and in Papua New Guinea. In 1978, Ms. Pigott earned a master's degree in social work at the University of Toronto. Since then, she has worked in the non-profit human services field for over 25 years. Prior to CAMH, she was the chief executive officer of St. Christopher House, a community-based, multi-service agency that operates in the west end of Toronto. Prior to that, she spent seven years at the United Way of Greater Toronto, first as allocations director and then as vice president of Fundraising. In 2006–07, she took a leave of absence from St. Christopher House to serve as the executive lead for Citizen Engagement, supporting the Ontario Citizens' Assembly on Electoral Reform. An active volunteer, Ms. Pigott served on several Boards including the Community Social Planning Council, Soulpepper Theatre Company and the Hospital for Sick Children. Currently, she is a board member of the Toronto Civic Alliance, the Change Foundation, and W[illegible]en Arts.

8

WALTER SEND[illegible]

Appointed June 4, 2008. Term expires June 3, 2014. Member, Audit Committee.

Mr. Sendzik is chief executive officer of the Greater Niagara Chamber of Commerce. He is also a member of the board the Niagara College, the Hotel Dieu Shaver Rehabilitation Centre, and Business Education Council. He founded *Vines* magazine, wrote *Guide to Niagara's Wine Country* and is co-author of the *Buyers' Guide to Canadian Wine*. He sold *Vines* to Osprey Media Group in 2003 when he joined that company as publisher of the *Niagara* magazine division, where he helped launch *Niagara* magazine.

He left Osprey to join the St. Catharines Chamber of Commerce in 2006 and oversaw the merger of the St. Catharines and Thorold chambers, which created one of the largest chambers of commerce in southern Ontario. Mr. Sendzik was awarded the Bernie Gillespie Award by the Ontario Chamber of Commerce for outstanding leadership, was a recipient of Niagara's Top 40 Under 40 award and the St. Catharines Volunteer Recognition Award, and was a finalist in the Niagara Youth Entrepreneur of the Year Award.

PAUL SPARKES

Appointed February 1, 2011. Term expires February 8, 2013. Member, Audit Committee.

Mr. Sparkes brings a wealth of media, public and private sector service experience to the LCBO Board. He is currently president and managing partner of Difference Capital Inc., a private investment firm. He joined CTVglobemedia in 2001 and was most recently executive vice president, Corporate Affairs. Over the course of his decade-long tenure, Mr. Sparkes oversaw regulatory and communication functions including strategy, public and media relations and corporate communications for all divisions including 27 conventional TV stations, 29 specialty and pay channels, 34 radio stations and *The Globe and Mail*. Prior to joining CTVglobemedia, Mr. Sparkes held senior management positions with the Government of Canada and the Government of Newfoundland and Labrador. From 1996 to 2001, he served in the Prime Minister's Office as director of operations and special assistant, Atlantic Canada to then Prime Minister Jean Chretien. He also served as executive assistant to two Premiers of Newfoundland and Labrador – Clyde Wells and Brian Tobin. Mr. Sparkes serves on other Boards including the National Arts Centre Foundation and he is founding member and Board chair of the Smiling Land Foundation. Mr. Sparkes holds a bachelor of arts in political science from Memorial University.

RAMESH SRINIVASAN

Appointed April 18, 2007. Term expires April 16, 2013. Member, Audit Committee.

Mr. Srinivasan is a senior hospitality educator with over 30 years of international experience in hospitality management. He holds a masters degree in hotel administration from Cornell-Essec in Paris, France. Areas of expertise include hotels, restaurants, catering and convention centre management, marketing and finance. He is Professor of Hospitality Management, School of Hospitality, Recreation and Tourism at Humber Institute of Technology and Advanced Learning, Toronto. Areas of specialization include wine education, revenue management, hospitality management accounting, entrepreneurship, conventions and meetings management.

His professional certifications include Certified Foodservice Manager; Certified Specialist of Wine; and Certified Hospitality Educator. He holds the Diploma in Wines and Spirits from the Wine & Spirit Education Trust Diploma from the U.K. He is a member of the Society of Wine Educators; the Hospitality Sales and Marketing Association International; Canadian Association of Professional Sommeliers; International Council on Hotel Restaurant and Institutional Education; Canadian Restaurant and Foodservices Association; and the Institute of Internal Auditors.

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HARVEY T. STROSBERG, QC, LSM, LLB, DCL

Appointed March 7, 2007. Term expired March 6, 2012. Term renewed and expires May 15, 2014. Member, Governance and Compensation Committee.

Mr. Strosberg, Q.C., is a senior partner at Sutts, Strosberg, LLP, Windsor. He was called to the bar in 1971. He has extensive trial and appellate experience in the areas of class action litigation, torts, personal injury, product liability and commercial disputes. He has been a bencher (director) of the Upper Canada Law Society since 1987 and was the treasurer (president) from 1997–1999. He is the editor of the *Canadian Class Action Review*. He is an adjunct professor at the University of Windsor Law School and teaches a course in class action law. The Law Society of Upper Canada awarded him a Doctor of Laws (LLD) and the Law Society Medal. Assumption University awarded him a LLD and the University of Windsor awarded him a Doctor of Civil Law (DCL).

REMUNERATION

Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee. The table below lists the total remuneration each Board member received in 2011–12.

Board Member	Remuneration
Philip J. Olsson (chair)	$ 21,225
Penny Lipsett	$ 3,880
Pamela Livingstone	$ 2,680
Laurel Murray	$ 3,630
Susan Pigott	$ 900
Walter Semchuk	$ 3,330
Paul Sparkes	$ 3,600
Harvey Strosberg	$ 550
Ramesh Srinivasan	$ 2,900
Geoffrey R. Lerner[1]	$ 3,180
Steve Diamond[2]	$ 2,475

1 Board member to May 2011 and did not seek re-appointment.
2 Resigned in December 2011.

WINES

Net sales

$1.244
billion

Increase over year before

$52
million
(+4.4 per cent)

Increase over plan

$11.6
million
(+0.9 per cent)

Margin dollars

$646.9
million

Increase over year before

$28.0
million
(+4.5 per cent)

Performance to plan

-$3.142
million
(-0.5 per cent)

Retail items increase to where

6,353
from 6,30
the previous year

KEY TRENDS:

Consumers are returning to historic buying patterns and generally trading up in price. Value wines (priced less than $8 per 750ml) saw the largest decline; net sales were down 3.0 per cent (or -$10.9 million) and market share was down 2.2 per cent. Wines priced $12 to $14.95 topped all priced bands in growth (up $27.2 million or 12.1 per cent).

Growing varietals, styles, regions and countries include:

- total Ontario (including ICB + VQA)[1] up 5.7 per cent.
- VQA table wine sales were up 9.4 per cent[2].
- pinot grigio (Italian pinot grigio was up 12.7 per cent and Californian pinot grigio was up 9.6 per cent).
- California reds (up 20.5 per cent).
- prosecco (up 23.5 per cent) and cremant (up 10 per cent).
- riojanos (up 22.7 per cent).
- France south red blends (up 25.4 per cent) and France south white blends (up 94.7 per cent).
- New Zealand (up 25.5 per cent).
- Italy (up 9.6 per cent).

OUTLOOK FOR 2012-13:

- net sales forecast to increase to $1.299 billion, up 4.4 per cent.
- total sales of Ontario VQA wines forecast to rise 10.3 per cent, overall, Ontario sales forecast to grow by 4.6 per cent.
- New World wines forecast to grow by 5.3 per cent, California will lead the way, driven by the popularity of their cabernets and blends, stronger assortment and the March 2012-13 promotion.
- sales of wines less than $10 will continue to decline as consumers shift to purchasing more wines priced $10 to $15; new product launches will contribute to this growth.
- moscato is becoming a very popular grape variety; signs indicate its rise in popularity will continue.

1 *[illegible]*
2 *[illegible]*

Ontario VQA
“
GOING LOCAL IS NOT JUST A TREND. IT'S WHAT A GROWING NUMBER OF CUSTOMERS ARE FACTORING IN WHEN MAKING THEIR BUYING DECISION.
”
Blair Pettigrew

BEER & CIDER

2011–12[1]:
(including shipments to The Beer Store)

Net sales

$908.8
million

Increase over year before

$35.0
million
(+4.0 per cent)

Performance to plan

-$5.7
million
(-0.6 per cent)

Margin dollars

$357.2
million

Increase over year before

$12.2
million
(+3.5 per cent)

Performance to plan

-$7.2
million
(-2.0 per cent)

Total warehouse turns (LCBO & The Beer Store combined in dollars)

19.14
from 17.70

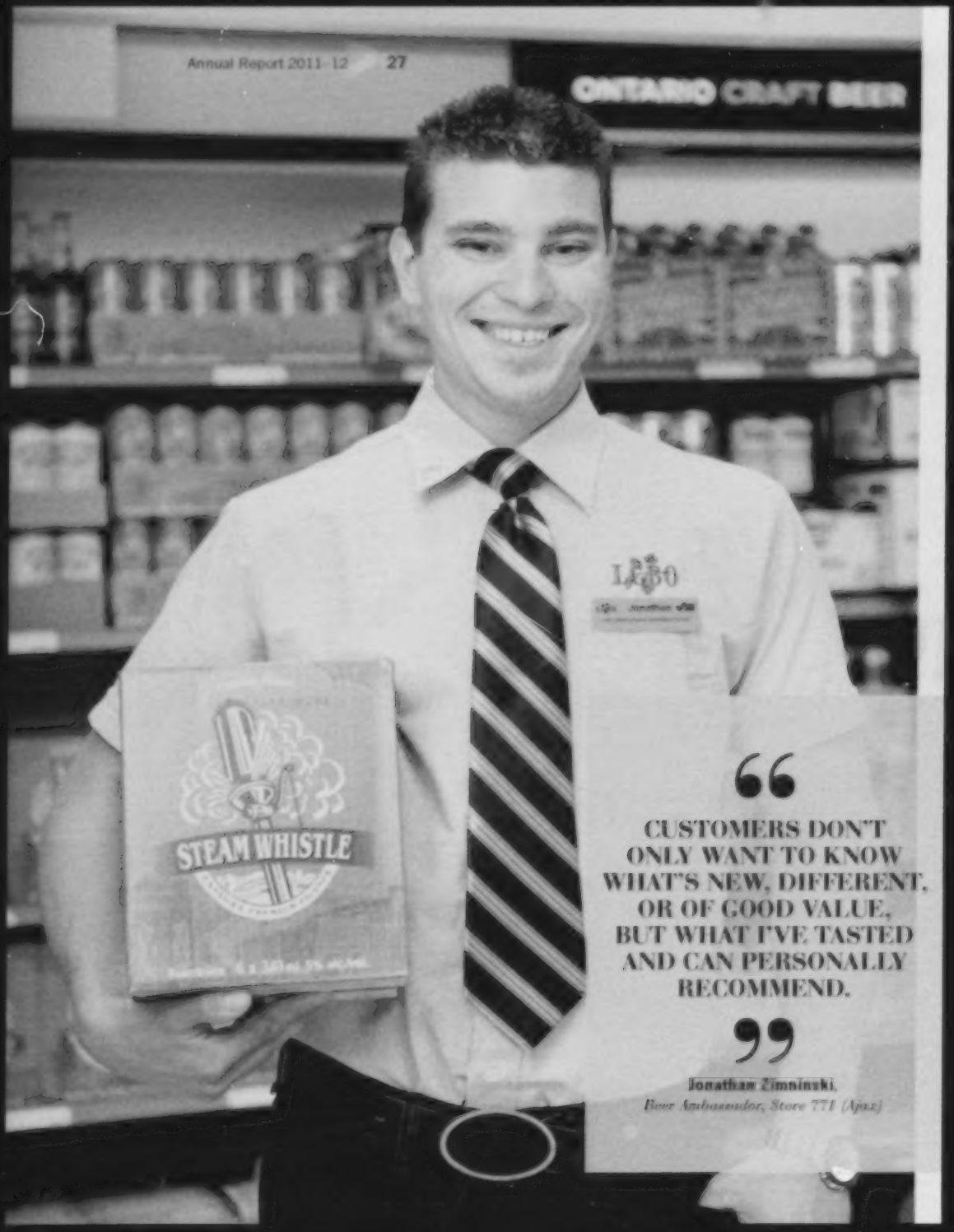
KEY TRENDS:

- LCBO beer and cider sales had another remarkable year, growing by 4.9 per cent in an overall beer market that was flat[2].
- single-serve can sales grew by 8.3 per cent in volume and now account for 36 per cent of total beer sales at the LCBO.
- demand for local craft beer continues to grow. Ontario craft beer net dollar sales grew by 29.4 per cent (includes both Ontario Craft Brewers [OCB] and non-OCB craft producers).
- cider is gaining interest and popularity in Ontario with sales growing 15.8 per cent in value and 11.6 per cent in volume versus last year – single-serve cans account for 75 per cent of sales and almost all of the growth.

OUTLOOK FOR 2012–13:

- consumers are becoming more sophisticated and educated about beer. They want more beer product knowledge and they want to know what to serve with beer. They are also interested in a wider range of styles, which will continue to fuel the growth of craft beer, both locally and globally.
- sales of cider are expected to continue to grow by 15.1 per cent in volume this year.
- beer sampler packs are expected to be a growing trend at the LCBO, trending up 15 per cent year-over-year as our consumers are looking for solution-oriented offerings that are great for gifting and entertaining.

1 LCBO product category totals do not include sales through VINTAGES, Private Ordering or Consignment programs.
2 Excludes sales to The Beer Store (TBS).



“CUSTOMERS DON’T ONLY WANT TO KNOW WHAT’S NEW, DIFFERENT, OR OF GOOD VALUE, BUT WHAT I’VE TASTED AND CAN PERSONALLY RECOMMEND.”

Jonathan Zimninski,
Beer Ambassador, Store 771 (Ajax)

VINTAGES

2011–12:

Net sales

$421.7
million

Increase over year before

$39.1
million
(+10.2 per cent)

Performance to plan

-$3.5
million
(-0.8 per cent)

Margin dollars

$204.8
million

Increase over year before

$17.1
million
(+9.1 per cent)

Performance to plan

-$4.6
million
(-2.2 per cent)

Total turns decrease (in dollars)

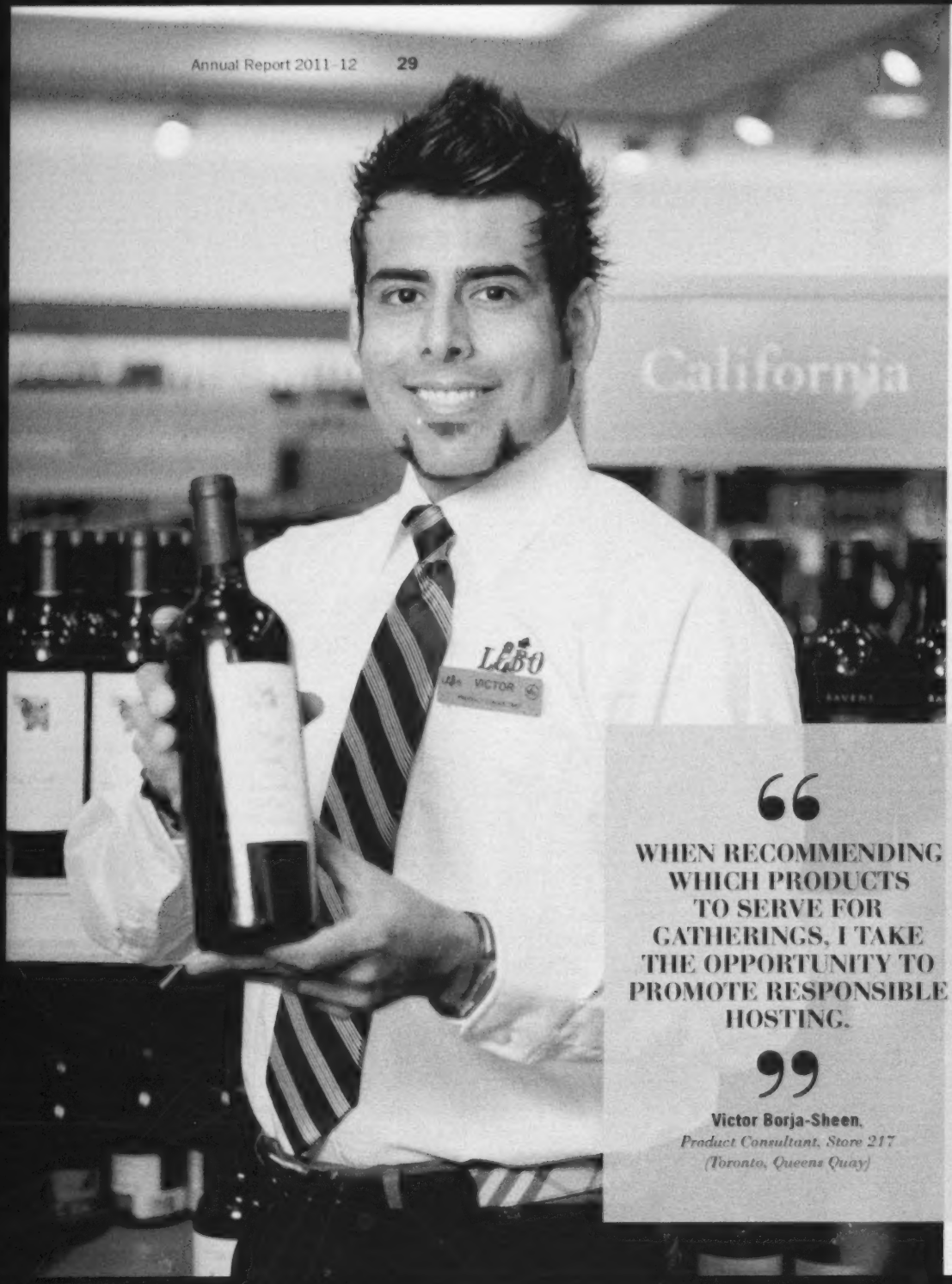
3.22
from 3.27 turns last year

KEY TRENDS:

- retail programs drove the bulk of VINTAGES sales; the greatest growth came from the Front Line Release program, which increased 8.6 per cent to $253.0 million (representing 60 per cent of total VINTAGES sales).
- Ontario VQA VINTAGES wine sales grew by 5.1 per cent. Ontario VINTAGES Front Line sales were a key growth driver, up 10.3 per cent.
- *Essentials* Program sales were $154.9 million (up 12.9 per cent).
- California represents the top VINTAGES set: $81 million, or 19.3 per cent of VINTAGES sales. California reds (excluding futures), including cabernet sauvignon, zinfandel and pinot noir, grew by 18.4 per cent to sales of $62.2 million; California whites grew by 18.5 per cent to $19.4 million.
- sauvignon blanc and pinot noir were varietals that showed growth across several countries. New Zealand whites were the fastest-growing segment (up 30.1 per cent to $20.3 million). New World sauvignon blanc had annual sales of $21.7 million which are up 15.2 per cent. Pinot noir had annual sales of $13.0 million, up 31 per cent from last year.
- Italian red is the largest set in VINTAGES European wine portfolio and will continue to grow as these wines are seen as good value for money even in the premium segments such as amarone, which grew 35.8 per cent and premium super tuscans at 22 per cent. The segment grew to $41.0 million, up 13 per cent.
- Front Line release French red sales were solid, growing 8.2 per cent to $30.0 million; southern Rhone, Bordeaux and Burgundy (Côte de Nuits) drove this growth.
- Front Line release sparkling wines exhibited unprecedented growth last year, ending up 19.5 per cent, driven mainly by Champagne which closed the year up 34 per cent.

OUTLOOK FOR 2012–13:

- net sales are forecast to increase 9.3 per cent to $460.9 million.
- margin dollars are forecast to increase 7.9 per cent to $220.9 million.
- VINTAGES will look to increase inventory turns to 3.30.
- retail programs will continue to drive growth; the VINTAGES Front Line Release program is expected to grow by 9.8 per cent while the *Essentials* program is forecast to grow by 7.8 per cent.
- continue to focus on premium sales growth and put increased effort into the online business.
- refresh the Ontario VINTAGES *Essentials* portfolio, focusing on the wines and styles where Ontario has expertise (pinot noir, riesling, chardonnay). Also increase Ontario's VINTAGES wine market share in price bands above $20.



“WHEN RECOMMENDING WHICH PRODUCTS TO SERVE FOR GATHERINGS, I TAKE THE OPPORTUNITY TO PROMOTE RESPONSIBLE HOSTING.”

Victor Borja-Sheen,
Product Consultant, Store 217 (Toronto, Queens Quay)

SUPPORT FOR DOMESTIC INDUSTRY

OUR PARTNERSHIP WITH THE ONTARIO WINE INDUSTRY AND THE PROVINCIAL GOVERNMENT TO DEVELOP AN OVERALL WINE STRATEGY HAS RESULTED IN A NUMBER OF INITIATIVES TO SHOWCASE THE PROVINCE AS A WINE AUTHORITY.

Ontario is the home of many quality vintners, brewers and distillers who take great pride in their work. The LCBO has long collaborated with the industry to promote their businesses to Ontarians and, in turn, support the local economy.

One of the LCBO's strategic objectives is the growth of Ontario wine sales and 2011–12 was another successful year in this respect. Ontario VQA table wine sales rose nine per cent, outpacing LCBO wine sales as a whole, which increased by 5.6 per cent.

Ontario VQA table wine sales through LCBO's Wines category rose 9.4 per cent and Ontario VQA VINTAGES wine sales rose 5.1 per cent, with VINTAGES Front Line release wines growing over 10 per cent. Total Ontario wine, including International Canadian Blend wines (ICB), grew by 5.6 per cent. The LCBO listed 100 new Ontario wines (72 new VQA wines and 30 new ICB wines), or 32.5 per cent of the total number of new wine listings. Over 200 VQA products are released through VINTAGES each year.

Our partnership with the Ontario wine industry and the provincial government to develop an overall wine strategy has resulted in a number of initiatives to showcase the province as a wine authority. That is why Ontario wines are at the front and centre of each store, occupying the best location for customers to easily browse the selection. Ontario wines are also displayed on high-quality, wood fixtures to distinguish them from the rest of the assortment.

Ontario wines also have their own dedicated team – LCBO and VINTAGES combined – including a category manager, product manager and category administrator, to drive growth and enhance their image.

On the retail floor, we have trained about 300 WOW (World of Ontario Wines) leaders, who are customer service representatives with specific knowledge about Ontario wines and their promotion to customers and colleagues. We also expanded the highly successful Ontario Wines Superstar program, which dedicates shelf space and promotional material every month to two LCBO VQA wines, to include a VQA VINTAGES selection as well.

Other initiatives throughout the year include:

- monthly promotions, such as Local Find (formerly Astrid's pick) and Local Talent at VINTAGES
- *Wines to Watch*, a craft winery incubator program that gives small Ontario wineries dedicated shelf space in 60 high-volume stores with LCBO marketing and promotional support
- a bi-monthly *"goLOCAL"* promotion featuring four VQA wines in a prominent location supported by free-standing inserts
- a *Go-to-Market* program enables small VQA wineries to sell in as little as a single store
- our annual September/October promotion, with the help of extensive advertising and promotional activities, puts Ontario wine centre stage. The 2011 promotion resulted in a 4.8 per cent increase in Ontario VQA wine sales.

ONTARIO CRAFT BEER AND SPIRITS

The LCBO and Ontario Craft Brewers (OCB) have built a strong relationship over the years that has been good for both businesses. In 2011–12, the OCB led all product segments with nearly 45 per cent sales growth at LCBO and the trends remain extremely favourable for the years to come.

While we merchandise beer by format (single cans, bottles, multipacks), we make an exception for Ontario craft beer, which is grouped together to increase its presence in the stores. Other merchandising programs especially in place for Ontario craft beer include:

- product display programs, such as a dedicated shelf extender and end aisle in select stores, to draw added attention to OCB products
- a special fixture showcasing Ontario's smallest craft breweries on a rotating basis
- Ontario craft beer "display walls" in flagship stores
- prominent display and advertising during annual summer beer promotion
- a mini Ontario craft beer promotion that coincides with the September/October Ontario wine event
- beer ambassadors in 100 stores (rising to 150 next year). These employees are experts in selling all beer and often learn from and work closely with OCB representatives.

The success of Ontario vintners and brewers bodes well for consumer acceptance of emerging Ontario craft distillers. Although this industry is in its infancy, activity is increasing and the LCBO, as part of its commitment to the local economy, is excited to bring these products to market as they become available. In addition, we have 250 spirits advocates across our network that are well-versed in Canadian-made spirits and often receive training through partnerships with local distilleries.

DEVELOPING A LEADERSHIP & COACHING CULTURE

WE BELIEVE IN CULTIVATING LEADERS THROUGH INVESTING IN OUR EMPLOYEES.

Effective succession planning today is critical to the LCBO's success tomorrow. Annual strategic planning meetings have occurred at the LCBO for several years to build leadership capacity and enhance our coaching culture in anticipation of pending baby-boomer retirements.

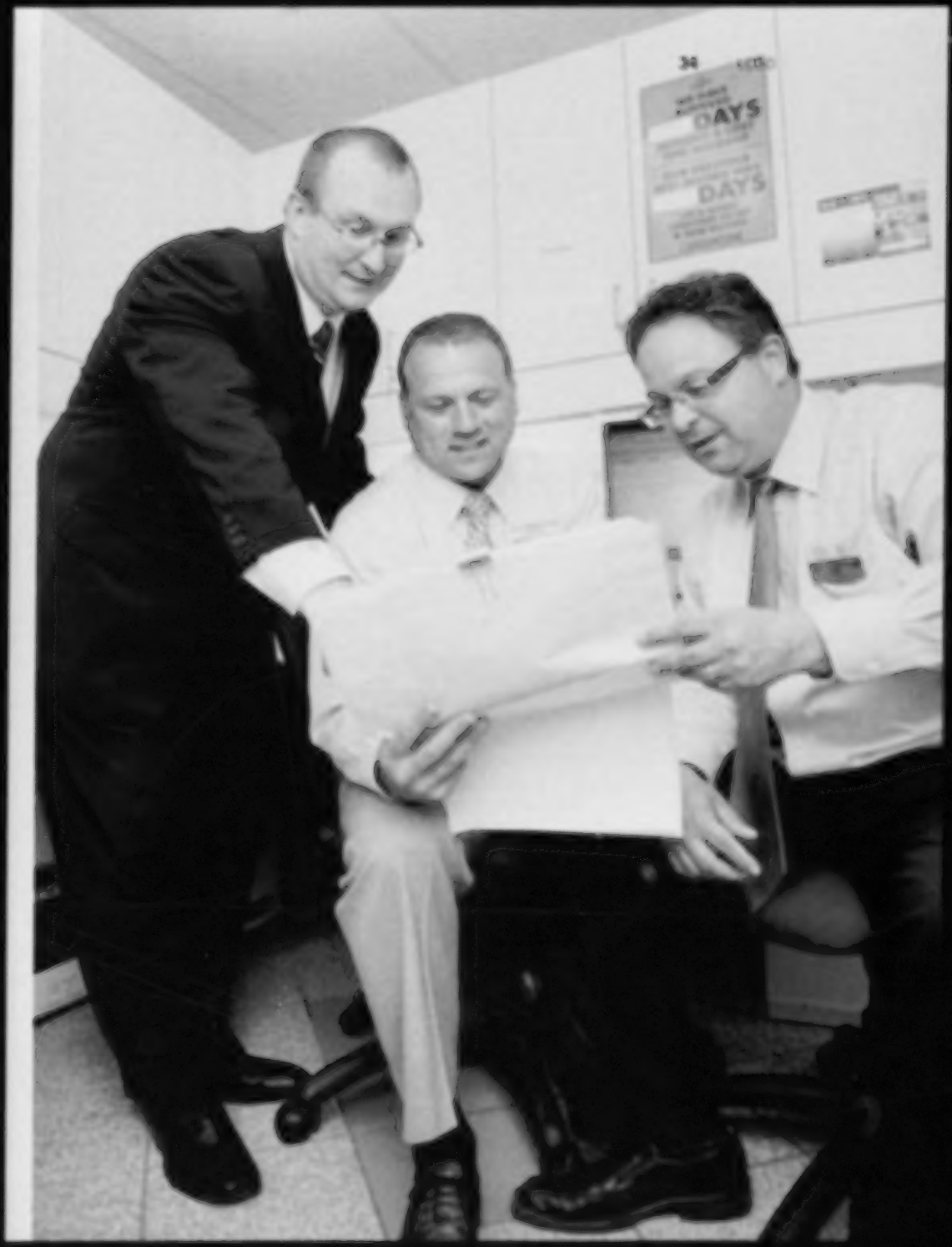
With more than 500 LCBO employees eligible for retirement by 2015, including several senior and specialized positions, our 2011–12 strategic plan recognized a need to accelerate succession planning to help retain employees and compete with other organizations seeking quality talent from a limited pool. All departments are working to ensure eligible candidates are in place within the organization to fill the roles of those key staff nearing retirement age.

We believe in cultivating leaders through investing in our employees. As part of the LCBO's employee promise to "learn, grow and discover one's potential," we have created several programs to further engage employees and build leadership capacity. LCBO is providing training, education and career path opportunities to increase job satisfaction and maximize occupational skills. The following is a sampling of key leadership training and development opportunities.

On Board: A program to recruit and train new store managers from outside and inside the organization. In a series of workshops, participants are introduced to the role of LCBO store manager and acquire the skills and knowledge to manage a store with confidence, be successful and build productive working relationships.

Leader as Coach: A two-day workshop providing leaders with coaching methods they can use every day to help others discover their potential.

Active Leadership: Targeted at managers and supervisors, this four-day program teaches how ability and motivation affect performance.


DAYS
DAYS

Think 1: Over a six-month period involving a half-day orientation and two, three-day workshops, participants enhance management and business process improvement skills.

Leadership Coaching Programs:

Internal: This leadership program provides one-on-one coaching for manager/supervisor-level employees. It is on-the-job learning, facilitated by an accredited internal coach, where coaching-related activities focus on the development of leadership skills aligned with business needs.

External: This leadership program provides one-on-one coaching for director-level and above employees. It is on-the-job learning, facilitated by an accredited external coach, where coaching-related activities focus on the development of leadership skills aligned with business needs.

Continuing Education and Financial Assistance Program: Provides employees with an opportunity to pursue their career development aspirations through continuing education courses that meet eligibility requirements.

Resume Program: Assists employees in pursuing job opportunities within the LCBO through the creation of a high-quality resume and cover letter package and provides information to enhance job-interview skills.

Presentation Skills: The presentation skills program provides a solid framework to improve the planning, structuring and delivery of formal and informal presentations, while also providing a safe learning environment to practice new skills, minimize anxiety and gain the confidence to deliver a more engaging and memorable presentation.

In 2012-13, we will create an online "Leadership Lounge," which will include a self-directed peer learning leadership development community on our Intranet portal. A separate "Leadership Academy Centre" portal will allow members to share experiences and best practices across the organization for the benefit of all departments and divisions.

We will continue to hold annual divisional specific meetings at which we look at current and future staffing requirements, pending retirements, high-potential and high-performing employees and other HR-related issues. Director-level staff will also be invited to join division heads to learn more about short-term and long-term human resource needs.

1: From left: John Wilkinson, manager, Succession Planning and manager of the New Manager Mentoring program, meets with Rob Sollbs, manager of Store 217, who is a mentor to many new managers, including Sergio Sam, manager of Store 511.

RETAIL INVESTMENT STRATEGY

The expansion and upgrade of the LCBO store network are critical components of the organization's continued evolution of the shopping experience. New, upgraded and relocated stores lead to improved sales and contribute to the annual dividend the LCBO pays to the province to help fund schools, hospitals and social services. They also create "spin-off" jobs, particularly in construction.

The organization's Store Development and Real Estate division seeks the best retail locations, focused on high-growth markets and service gaps in communities, to produce a capital return on investment of at least 12 per cent. A comprehensive and proven store location process, which includes a forecast of incremental sales and expenses, is supported by reviews and approvals at several levels, including departmental, committee, and by the Board of directors.

LCBO ended fiscal 2011–12 with 623 stores across Ontario. A total of $42 million was invested in the store network for renovations, maintenance and repairs to our existing stores, and to construct 15 new stores, expansions and relocations in Toronto, Burlington, Kanata North, Brampton, Sudbury, Ottawa, Chatham, Kitchener, Orangeville, and Sault Ste. Marie. In addition, 86 stores were renovated during the year, which was well above the 34 planned. The new stores alone added nearly 58,000 square feet of selling space, plus 10 VINTAGES sections and increased space for Ontario VQA wines. On average, the payback period for a new LCBO store is less than two years.

The LCBO's retail investment program for 2012–13 contemplates a doubling of the historical store-expansion rate and represents the single-largest increase to the store network ever. The Ministry of Finance has endorsed this accelerated store expansion program, given the LCBO's track record, believing that a greater investment in the store network will generate positive returns for the government.

As each new store project – from initial site identification to opening day – can take up to two years to complete, intense planning, negotiation activity, and analysis were required in 2011–12 to meet the needs of the accelerated program for the coming year. With a goal of opening 30–35 new stores a year for at least the next two years, 46 new stores were approved in 2011–12. It is estimated the capital investment in new and relocated stores in 2012–13 will increase sales by $29 million in the first year and by $62 million annually.

Additional resources are being introduced, especially in the areas of store construction and design, to help the division adjust to the increased activity. The implementation of a Store Lifecycle Information System will also help to automate and streamline business processes to allow staff to better track and monitor progress and set priorities.

LOGISTICS
PRODUCTIVITY
UPGRADES

CORPORATE SOCIAL RESPONSIBILITY

THE LCBO'S SOCIAL RESPONSIBILITY MANDATE RESTS ON FOUR PILLARS:

RESPONSIBLE RETAILING AND CONSUMPTION
PRODUCT QUALITY AND SAFETY
ENVIRONMENTAL SUSTAINABILITY
COMMUNITY SERVICE AND FUNDRAISING

LCBO established a Corporate Social Responsibility Council in 2008–09. The composition of the council and its four working groups includes diverse employee representation from across the organization. Our employees are passionate about corporate social responsibility and we are very proud of our many accomplishments in 2011–12.

RESPONSIBLE RETAILING

6.3 million challenges in 2011–12

Once again, frontline staff continued to demonstrate their vigilance in preventing sales to minors and those who appear intoxicated. It is perhaps the most difficult aspect of the job, but staff members are professional in upholding this responsibility every day. During 2011–12, LCBO retail staff challenged 6.3 million people who appeared underage, intoxicated, or were suspected of purchasing for a minor or an intoxicated person. More than 290,000 were refused service; 84 per cent of refusals were for reasons of age. Our *Check 25* program, where customers who appear under 25 are routinely asked for proof of age ID, was re-launched and supported by seasonal blitzes. We completed training of all retail employees on the *Challenge & Refusal: It's not personal. It's the Law* program.

Preventing drinking and driving

LCBO's *Deflate the Elephant* social responsibility campaign continued to evolve with the launch of the "Home Bartending Challenge" at www.deflatetheelephant.com, a Facebook Pledge photo contest and TV commercials during the summer and holiday seasons encouraging hosts to help prevent their guests from drinking and driving. It was LCBO's 13th annual social responsibility campaign.

MADD Canada's 2011-12 school assembly program, *Damages*, reached half a million students at 600 Ontario high schools. The program, which shows how drinking and driving can damage lives and families forever, was presented free of charge to schools because of funds raised during December's *Spirit of Giving* prompted donation campaign at LCBO checkouts.

Third-party research shows Ontarians believe the LCBO is effective at promoting responsible consumption and hosting while helping protect the public – key priorities for LCBO as a responsible retailer. Here are the highlights:

- 75 per cent of consumers surveyed perceive LCBO to be effective at promoting responsible consumption
- recall of the holiday TV commercial is above industry norms
- awareness of the expression "Elephant in the room" continues to gain traction, with 66 per cent linking it to LCBO drinking and driving prevention
- one in three would recommend the Home Bartending Challenge.

PRODUCT QUALITY AND SAFETY

Before a product is put on the shelf and offered for sale, it must be must be tasted, tested and certified. That is the job of the LCBO's Quality Assurance (QA) laboratory, which conducts more than 500,000 laboratory tests and tastes more than 7,000 products each year. These tests confirm that the products are safe to consume, authentic and meet the standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labeling Act* and their related regulations. Our world-renowned laboratory meets high standards set by the Geneva-based International Organization for Standardization and is registered under ISO 9001, as well as under ISO/IEC 17025, a designation specific to chemistry laboratories.

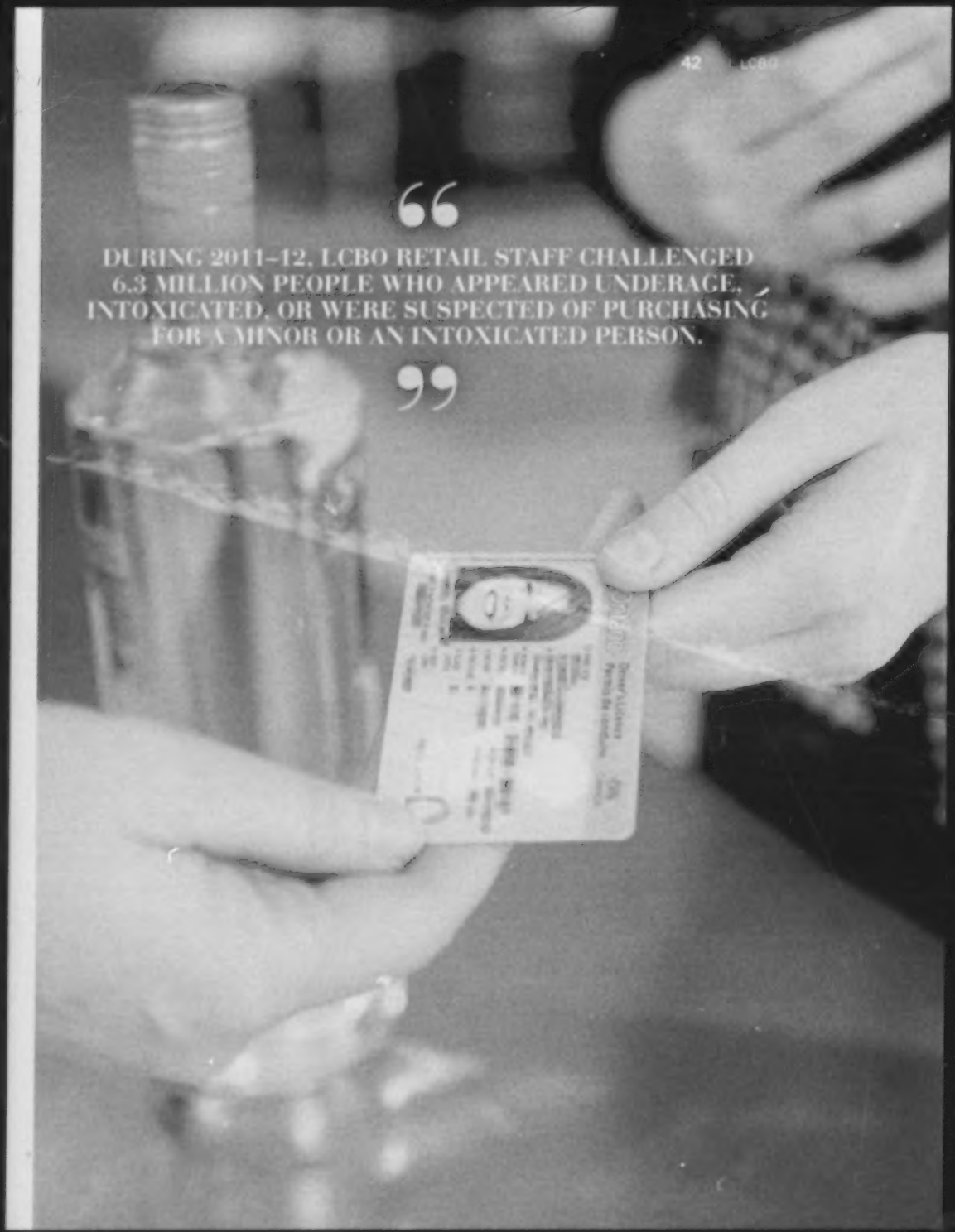
The findings of LCBO's QA laboratory are widely used as benchmarks by other liquor jurisdictions inside and outside of Canada, as well as beverage alcohol producers and quality assurance bodies.

In 2011–12, the QA group developed sweetness descriptors for wines based on an algorithm. Through extensive sensory evaluation, analytical testing and consumer research, these sweetness descriptors are assigned to red and white table wines. Based on a laboratory analysis, we can now describe the taste sensation that consumers will perceive in a wine, allowing us to update the previous numeric sugar code system, in addition to listing the actual sugar content as grams of sugar per litre. The new system will be rolled out through 2012.

In addition, the investigated-complaint response time by the QA department was 18.2 days, a 46 per cent improvement over last year. Key improvements were also implemented to increase recall effectiveness.

Quality Assurance by the numbers:

- total lab samples: 22,786
- total lab tests: 514,471
- percentage rejected by laboratory: 10.7 per cent
- total units returned/customer complaints: 86,888
- number of customer complaints requiring investigation: 179



“DURING 2011–12, LCBO RETAIL STAFF CHALLENGED 6.3 MILLION PEOPLE WHO APPEARED UNDERAGE, INTOXICATED, OR WERE SUSPECTED OF PURCHASING FOR A MINOR OR AN INTOXICATED PERSON.”

ENVIRONMENTAL SUSTAINABILITY

Initiatives to reduce our environmental impact are numerous and span the entire organization. We released our first online Sustainability Report in 2010–11 that detailed how we have reduced energy consumption in our retail stores and buildings, as well as other innovations and technologies we have implemented to lessen the carbon footprint of our operations. Highlights of the updated report (http://www.lcbo.com/enviro) are provided here:

LCBO has an environmental committee that consists of a cross-functional team of employees who help to implement the organization's environmental strategy, review best practices and develop new ideas. LCBO's environmental strategy has five key goals:

- reducing package waste generated by LCBO sales;
- increasing the amount of material diverted from landfill to recycling and reuse;
- improving all aspects of environmental management;
- reducing consumption of energy and utilities at LCBO facilities; and
- promoting reuse and conservation.

Ontario Deposit Return Program (ODRP)

The Ontario Deposit Return Program, also known as *Bag It Back* (www.bagitback.ca), was introduced to encourage the return of beverage alcohol containers for a refund to help protect the environment. Since its inception in 2007, more than 1.3 billion containers have been returned, equivalent to 532,000 tonnes of glass, plastic and metal containers. Additionally, LCBO provides funding to municipal Blue Box systems for curbside collection of containers that don't make it into the ODRP system. In 2011–12, we achieved a waste diversion rate of 93 per cent for the containers LCBO sells when the ODRP and municipal Blue Box program are combined.

Leadership in lightweight glass

Our participation in a national strategy to migrate mainstream wine bottles to lightweight glass bottles made great progress over the past year. The LCBO announced in June 2011 that almost all wine products costing less than $15 will be available in 420 gram bottles, which we determined in consultation with trade groups was the reasonable maximum weight for wine bottles, by January 2013. Lightweight glass is not only good for the environment, but lower case weights also make for easier handling by employees and therefore improve health and safety.

Green construction and retrofits

New stores are built using LCBO green building specifications – building automation systems, free cooling cold rooms, use of natural light, energy-efficient lighting and mechanical systems, increased insulation and preventative maintenance programs. As a result, new-construction stores are 25–30 per cent more energy efficient than LCBO stores built five years ago. In partnership with our building developers, we have opened a total of eight LEED-designated (Leadership in Energy and Environmental Design) stores. We estimate these standards reduce our carbon footprint by about 20 tonnes each year.

Where it makes sense, we will also retrofit older stores with green technologies to help the environment and make our operations more efficient. Energy savings is being derived from the installation of glass doors on open refrigeration units, cooling cold rooms with "free" outside air and the replacement of refrigeration and HVAC units with more efficient models.

With the application of green principles and practices into store design, construction and maintenance through pilot programs and best practices, we are on track to cut store energy consumption by two per cent this year and 10 per cent over a five-year period.

Summary of Logistics efficiencies

A number of environmental initiatives were completed by the Logistics division to improve the operating efficiency of distribution centres and reduce energy associated with lighting, HVAC (heating, ventilation and air conditioning) and product transportation.

London Retail Service Centre:

- replaced 1,400 eight-foot fluorescent fixtures with 235 (400 watt) metal halide fixtures.
- replaced 150 (T5 fluorescent) fixtures in the warehouse and 24 exterior fixtures with mercury-filled lamps with metal halide lamps.
- installed motion sensors in all aisles of the main warehouse.
- recorded 19 per cent improvement in electricity utilization in 2011–12 compared to baseline year (2009–10).

Ottawa Retail Service Centre:

- replaced 1,086 magnetic tubular T12 lamp ballasts and fixtures with 477 high efficiency T5 lighting fixtures, which is expected to result in a 30 per cent reduction, or 310,000 KWH/Yr.
- replaced old dock doors with high-speed, temperature retaining doors.
- replaced oil-fired boiler with natural gas.

Thunder Bay Retail Service Centre:

- replaced non-insulated leaky overhead doors at loading docks with insulated doors.
- replaced the 50-year-old steam boiler system with hydronic heating system, which is estimated to decrease gas usage by 31,000 cubic metres per year.

Transportation:

- reduced generator usage for Durham temperature-controlled containers by 41 per cent, or an equivalent of 190,000 litres of diesel fuel, which avoided approximately 500,000 kg CO2e for two years.
- included new qualifiers regarding environmental programs in the RFP and selection process for all transport service providers.
- reduced the use of scrap pallets from vendors by 50 per cent, or approximately 80,000 pallets.
- implemented EDI Project, a paperless freight payment system eliminating hard copy invoice submissions with electronic invoice data.

COMMUNITY INVOLVEMENT AND FUNDRAISING

Thanks to the generosity of our customers and employees, we raised a new record total of $6.2 million for worthy causes in 2011–12. Also setting a new record was our annual United Way *Gift of Giving* campaign, which raised $2.5 million. These funds are raised through customer donations, employee donations and pledge and fundraising events. United Way uses the funds to help people move from poverty to possibility, build healthy people and strong communities and to help kids realize their full potential.

Another key fundraising initiative is LCBO's in-store donation box program. Each December, the *Spirit of Giving* campaign raises critical funds for MADD Canada and four children's hospitals serving Ontario. This resulted in the collection of more than $2.6 million – another new record. LCBO employees also actively fundraise on a grassroots level to help those in need in their communities. In one example, stores from three districts collected donations from customers at the checkout for the Salvation Army Goderich Tornado Relief Fund after the town was devastated by a tornado. Over a two-week period, close to $15,000 was raised to fund rebuilding efforts.

In addition to helping locally, LCBO customers and employees help those in need in communities around the world. In 2011–12, an additional $524,000 was raised for the Canadian Red Cross to help the victims of Japan's catastrophic earthquake and tsunami rebuild and recover. It's a further demonstration of the LCBO's commitment to fundraising and collaboration to help those stricken by natural disaster, whether at home or abroad.

MANAGEMENT DISCUSSION & ANALYSIS OF OPERATIONS

The LCBO is a government operational enterprise. It operates a network of more than 620 retail stores and special-order services, offering over 22,000 spirits, wine and beer products to consumers and licensed establishments throughout the province of Ontario. In fiscal 2011–12 (hereafter referred to as 2012), the LCBO estimates more than 1.3 billion litres of beverage alcohol products were sold in Ontario during the year, with a retail value of nearly $10 billion. The LCBO accounts for more than one-third of these volume sales and just under half of the retail value sales.

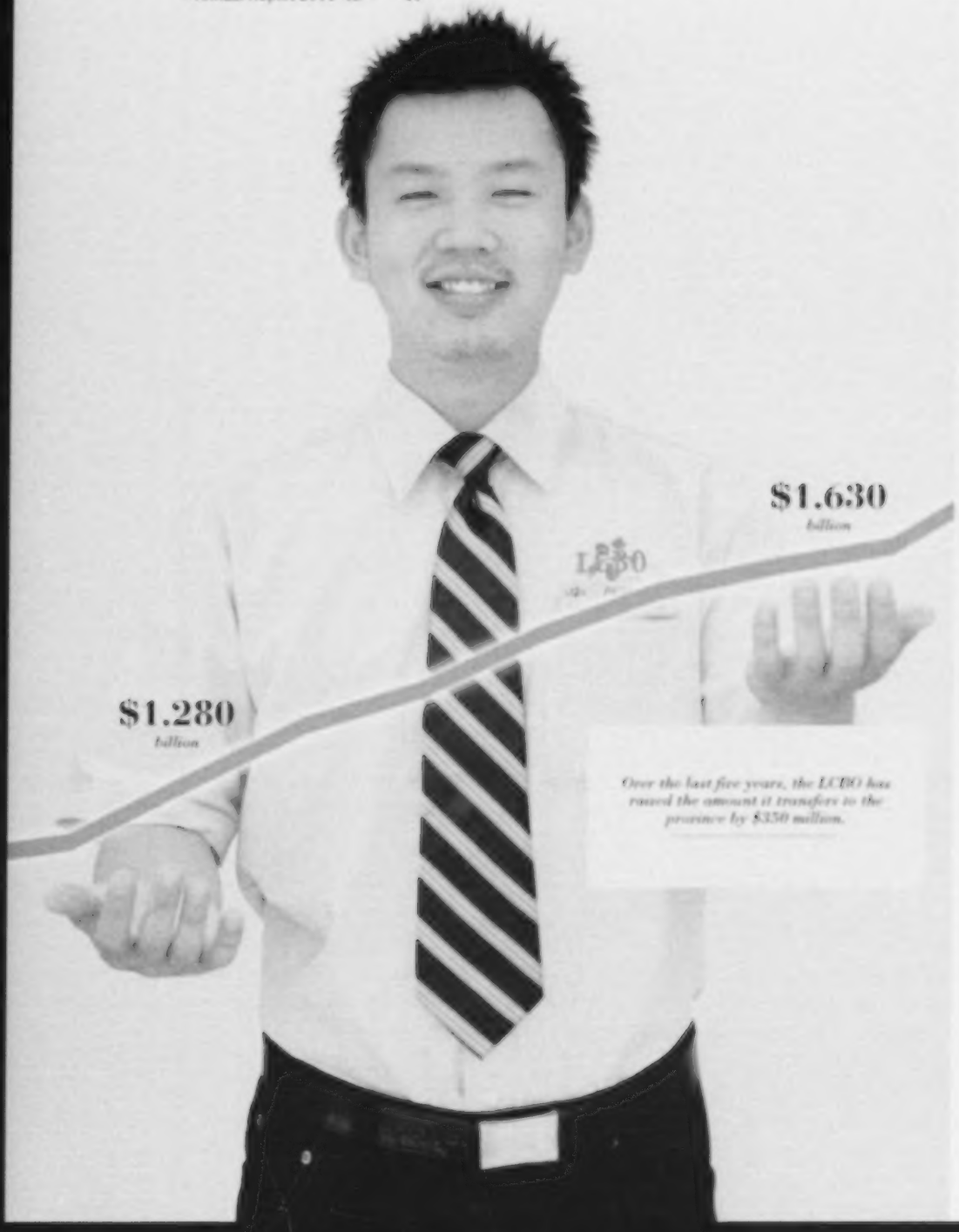
HIGHLIGHTS

- revenues[1] of $4.7 billion surpassed the previous year's by 4.9 per cent and outpaced plan by 0.7 per cent.
- net earnings were $98.3 million higher than in 2010–11 (hereafter referred to as 2011) – a 6.3 per cent increase, and 1.3 per cent or $21.0 million higher than plan.
- dividend to the government exceeded $1.6 billion, reflecting a 5.2 per cent improvement over the previous year and achievement of plan.
- the LCBO retail store network increased by six stores during the year to 623 stores.

	2012	vs. 2011	vs. Plan
Dividend to government	$ 1,630,000,000	5.2%	0.0%
Revenues	$ 4,711,550,000	4.9%	0.7%
Net earnings	$ 1,658,234,000	6.3%	1.3%
Retail stores	623	1.0%	-0.2%

Source: 2011–12 Audited Financial Statements

1 Fiscal years 2011–12 and 2010–11 numbers are presented in accordance with International Financial Reporting Standards (IFRS). Financial information prior to these periods complies with Canadian Generally Accepted Accounting Principles (CGAAP). Net earnings and dividend are presented for a 10-year history since the net impact of IFRS changes on net earnings is minimal and non-existent for dividends. Net sales, used for internal reporting purposes, are equal to gross sales less discounts and taxes. Net sales are used to calculate retail and logistics productivity ratios.

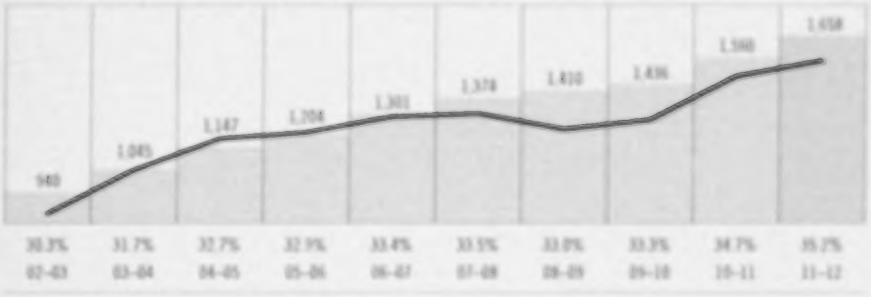


Over the last five years, the LCBO has raised the amount it transfers to the province by $350 million.

NET EARNINGS

In 2012, net earnings represented 35.2 per cent of revenues and reflected an improvement of 50 basis points over the previous year.

Net earnings ($000,000) and as percentage of revenues

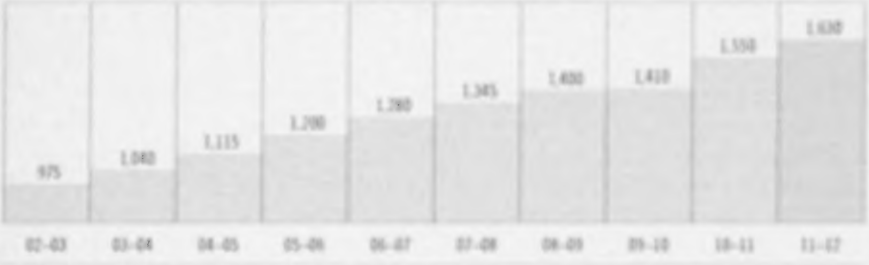


In the last decade, net earnings have grown by almost $720 million or 76.5 per cent, a result of improved margins and good expense control.

DIVIDEND

Excluding all taxes, the LCBO transferred $1.6 billion in dividends to the Government of Ontario in 2012. Compared to 2011, the amount rose by $80 million and marked the 18th straight year of increased transfers, the last 17 of which have been record years.

Dividend ($000,000)



The 2012 dividend has grown by more than two-thirds of what it totalled 10 years ago, reflecting $655 million in additional transfer today. Cumulatively, the Government of Ontario has received almost $13 billion in dividend transfers from the LCBO over the past decade.

In 2012, the LCBO paid $2.4 billion to all levels of government. The dividend, which excludes all sales and municipal taxes, was the sole payment at the provincial level and accounted for 67.4 per cent of the total. The Government of Canada received $767 million in the form of excise, duty and sales taxes. Realty and leased property taxes comprised the $21 million the LCBO paid to Ontario municipalities.

Total payments were	2,418,098
Government of Ontario – Dividend	67.4%
Government of Canada – HST	17.2%
Government of Canada – Excise & Duty	14.5%
Ontario Municipalities	0.9%

THE EXTERNAL ENVIRONMENT

On the economic front, Ontario continued to recover from the global economic recession. Despite a stagnant U.S. economy and the ongoing turmoil in Europe, the province posted real GDP growth of two per cent during the fiscal year and added close to 100,000 jobs, bringing the unemployment rate down to 7.4 per cent. These improved economic conditions supported LCBO performance during the year and enabled the organization to grow net sales by 4.9 per cent, outpacing the provincial total retail sales growth of 3.6 per cent.

Effective marketing campaigns, successful product launches and continued store network expansion and upgrades were the drivers behind the LCBO's 2012 4.9 per cent revenue growth as were three additional Saturdays and an Easter holiday at the end of 2012.

The weather was another key determinant of the organization's selling performance in 2012. A cool, damp spring in the province constrained sales during the first three periods of the year, particularly in the beer category. However, the onset of hot, dry summer weather accelerated sales results across all categories. In particular, spirit cooler sales were robust during this period. LCBO sales maintained momentum throughout the fall and a mild winter season. The year closed out strongly with the arrival of an early spring and record-setting temperatures in March.

NET SALES

Net sales totalled $4.7 billion in 2012, representing favourable variances of $218 million versus last year and $34 million ahead of plan.

CATEGORY

Spirits accounted for the greatest share of LCBO's net sales in 2012, with $1.9 billion or 42.4 per cent of the total net sales. While the category share reflected a 20 basis point reduction from last year, sales improved by 4.1 per cent compared to 2011 and outpaced plan by 1.5 per cent.

Wine (excluding VINTAGES) was the second largest category, representing 27.8 per cent of net sales and totalling $1.2 billion. Favourable variances of 4.4 per cent versus last year and 0.9 per cent compared to plan were recorded during 2012, despite a 10 basis point decline in the share to total net sales.

OPEN

Beer contributed $914 million to LCBO's 2012 net sales, losing 20 basis points in category share to 20.4 per cent of the total. Compared to last year, net sales grew by 4.0 per cent but underperformed plan by 0.5 per cent.

VINTAGES share of total net sales improved by 50 basis points to 9.4 per cent with $422 million in net sales. The results bettered last year's by 10.2 per cent but fell short of plan by 0.9 per cent.

Net sales by category (2012)

Spirits	42.4%
Wine	27.8%
Beer	20.4%
VINTAGES	9.4%

REGIONS

The LCBO's four geographical retail regions all posted healthy net sales growth in 2012.

Region	2012 ($MM)	vs. 2011	vs. Plan
Central	1,531,059	5.4%	0.8%
Western	1,024,805	4.4%	0.0%
Eastern	962,728	4.5%	0.7%
Northern	574,472	3.9%	-0.3%

The Central Region experienced the most sales activity with $1.5 billion in net sales in 2012. This region also had the most favourable net sales performance with 5.4 per cent growth over last year and 0.8 per cent better than forecast.

The Western Region recorded sales results as expected, exceeding $1 billion in 2012. Growth for the region was 4.4 per cent better than 2011 and achieved plan.

With $963 million in sales in 2012, the Eastern Region is the third largest geographically in terms of sales. Actual net sales outpaced planned results by 0.7 per cent and added 4.5 per cent more than those recorded in 2011.

Net sales in the Northern Region were slightly below target (-0.3 per cent). This geographic retail region had net sales of $574 million in 2012, achieving 3.9 per cent growth compared to the previous year.

COMPARABLE VS. NON-COMPARABLE STORE SALES

Comparable store sales growth is a commonly used metric in the retail industry and encompasses sales at all stores that have been in the same location and format for one full year, thus excluding all non-comparable stores that were new, moved, renovated and closed during the period. To calculate annual sales growth, comparable stores must have been in the same location for two full fiscal years.

In 2012, comparable stores posted a sales increase of 3.2 per cent versus the previous year and represented $3.8 billion in retail sales. These net sales results were 0.7 per cent better than plan. Non-comparable stores, which included seven new stores, six relocations, two expansions and one closure, experienced sales growth of 65.8 per cent, further emphasizing the effectiveness of the LUMA store network expansion and upgrading strategy. Net sales of these stores totalled $270 million and were 1.7 per cent higher than plan.

Comparable vs non-comparable store sales growth in 2012

SALES (millions)

The LUMA retail channel represents sales to home consumers and accounts for almost 80 per cent of total LUMA net sales. Over the last year, the channel's share expanded 20 basis points as sales increased by 5.1 per cent to $3.8 billion in 2012.

Net sales to licensed establishments (bars, restaurants) grew by more than $20 million, a 6.8 per cent improvement from 2011. As a percentage of overall LUMA net sales, however, the channel share remained steady at 9.8 per cent.

LUMA net sales to The Beer Store (TBS) totalled $208 million in 2012, representing a 3.2 per cent increase, or almost $10 million, from 2011. While the TBS channel remained the third largest, its share retreated 10 basis points to 4.3 per cent of LUMA net sales.

Net sales by sales channel (2012)

Retail	79.8%
Licensee	9.8%
TBS	4.3%
Agency	2.1%
Direct Delivery	1.1%
Duty Free	0.5%
Other	0.1%

LCBO net sales in duty-free stores at airport and border locations were approximately $X million for the third time within the last decade, rising from $X million during the third quarter of 2012. The sales improvement was at 3.5 per cent in 2013 net sales.

Agency stores net sales grew 3.0 per cent during the year to $XX million. These sales are market share movement as volumes sales remained in the previous year levels in 2013, with all overall LCBO net sales.

The direct delivery program, which enables Ontario residents to receive their products predominantly B2B service, showing no increases, recorded the highest volume ever sold at 3.8 per cent compared to 2012, and revenue in service a $XX million. These services net sales, however, remained at 1.2 per cent of total LCBO net sales in 2013.

LCBO @ 10: Inside Stories

The LCBO operates in a diverse marketplace, along with other members of beverage alcohol to the consumer of Ontario, including The Beer Store (TBS), which is owned by Molson Coors Labatt Anheuser-Busch InBev. All are Ontarian companies. Ontario agency stores (OAS) are and distributing stores and duty-free operations. The LCBO has also collaborated extensively retailers in smaller Ontario communities to approvals, in an economic development with other goods. These agency stores sell specific items and maintain their the LCBO and domestic beer counterparts from TBS or other domestic beer suppliers.

As of March 31, 2013, there were 1,267 private selling premises (excluding LCBO),

As of March 31, 2013, the LCBO's sales and network of XXX,XXX square feet of retail space, including XXX,XXX square feet of warehouse space.

The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, OAS, and as other legal (e.g., farmers) or unlicensed, increased over 2012 to approximately 11 billion litres sold during 2013. The LCBO's market share is currently 70% by volume, or 18.8 per cent from 18.1 per cent in 2012.

1. Molson Coors is XXX for sale to a private investor who will be operating as XXX Brewing Co.
2. Labatt Brewing Co. sold a XXX interest to Anheuser-Busch InBev in 2004 and XXX in 2009.
3. The Beer Store is a Retail Division of XXXX Inc.

The Ontario wine market grew 2.7 per cent in 2012. Sales of domestic wines rose 3.0 per cent and represented 38 per cent of total volume share, an improvement of 10 basis points from 2011. Imported wines, accounting for the remaining 62 per cent of wine volume sales in Ontario, had slightly softer growth of 2.6 per cent during the year.

Of the three channels distributing Ontario wines, direct delivery had the healthiest growth of 7.7 per cent, enabling a market share expansion of 10 basis points to 2.4 per cent of 2012 provincial wine volume sales. Growth of Ontario wine volume through the LCBO was more modest at 3.7 per cent, but greatest in terms of magnitude with an additional 1.3 million litres compared to last year, and market share advancement of 20 basis points to 22.6 per cent of overall wine sales within the province. Winery Retail Stores' sales were flat, growing 0.9 per cent during the year, and slipping 20 basis points to 13.0 per cent of the volume market share.

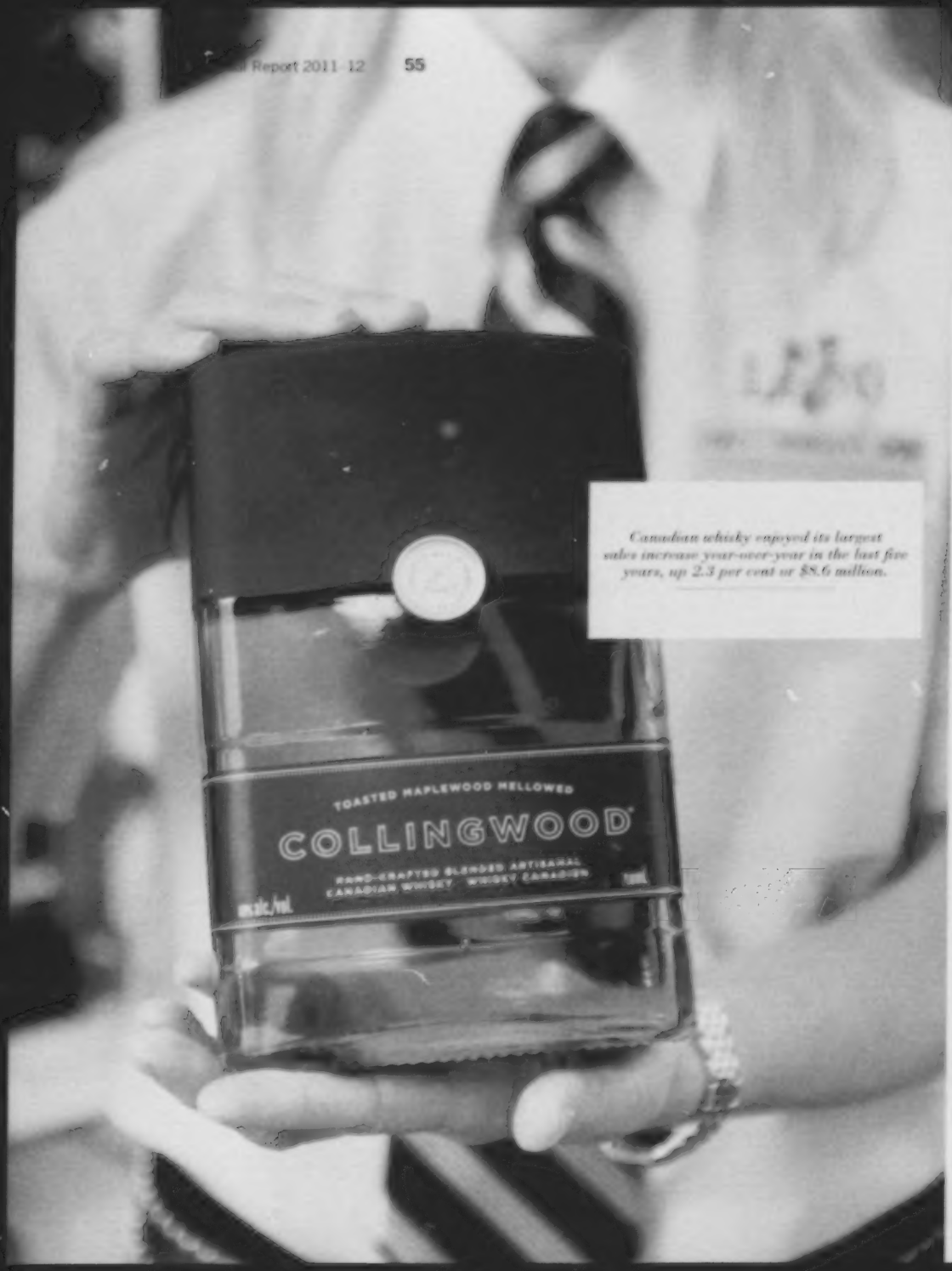
Wine volume market share 2012 (2011 share in brackets)

LCBO Imported	61.7% (61.8%)
LCBO Ontario	22.6% (22.4%)
Wine Retail Stores	13.0% (13.2%)
Direct Delivery	2.4% (2.3%)
LCBO Domestic – Other	0.3% (0.3%)

Provincial beer litre sales in 2012 declined by more than two million litres or 0.3 per cent compared to 2011. TBS, with 77.5 per cent of the market volume, experienced a drop in sales of 1.2 per cent over this period. Excluding sales to TBS, the LCBO had volume growth of 3.0 per cent and captured 170 basis points during the year to 22.5 per cent versus 20.8 per cent last year.

Beer volume market share 2012 (2011 share in brackets)

TBS Domestic	70.4% (71.8%)
LCBO Domestic	13.5% (11.9%)
LCBO Imported	9.0% (8.9%)
TBS Imported	7.1% (7.4%)



Canadian whisky enjoyed its largest sales increase year-over-year in the last five years, up 2.3 per cent or $8.6 million.

OPERATING RESULTS

In 2012, every $1 in net sales was on average, broken out in the following manner:

Product cost	$	0.50
Earnings from operations	$	0.35
Selling, general and administrative expenses	$	0.15

MARGINS

Gross margin of $2.4 billion in 2012 represented an increase of 5.2 per cent compared to last year and 0.3 per cent above plan. As a percentage of revenues, gross margin in 2012 rose 20 basis points to 50.2 per cent over last year's result, but fell short of forecast by the same amount. This is a result of the 1.3 per cent spirits mark-up reduction and a greater than planned shift in product mix to higher volume, lower margin products by consumers.

From every $1 in net sales, the major categories generated the following margins in 2012:

Spirits	$	0.58
Wine	$	0.52
VINTAGES	$	0.49
Beer	$	0.39

Spirits accounted for 47.8 per cent or $1.1 billion of margin. Compared to 2011, the spirits margin share declined by 14 basis points but outperformed plan by 61 basis points.

The wine margin share was essentially flat relative to last year, at 27.9 per cent of the total margin. The $647 million received from this category lagged planned share by 18 basis points.

Margins from beer totalled $360 million in 2012. Forecast and last year category shares were 25 and 18 basis points higher respectively than the 15.5 per cent for which it accounted this year.

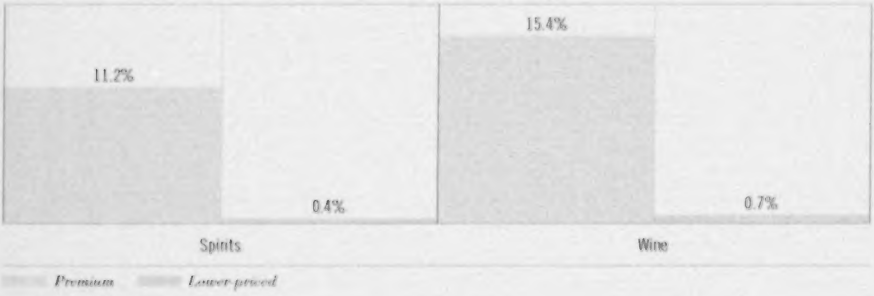
VINTAGES margin share gained 36 basis points from 2011 to 8.8 per cent. The $205 million, however, was 18 basis points below forecast share.

Margin by category 2012

Spirits	48%
Wine	28%
Beer	15%
VINTAGES	9%

Sales growth of premium products in 2012 outpaced those of lower-priced products. Volume growth of premium spirits, with prices of at least $30 for a 750 ml bottle, rose 11.2 per cent year-over-year compared to essentially flat sales growth of similar-sized, lower-priced spirits products at 0.4 per cent. Premium wines, retailing for $15 or more for a 750 ml bottle, experienced a 15.4 per cent volume increase, while lower-priced wine products had marginal growth of 0.7 per cent. Unlike spirits and wine, similar-sized beer products generate the same margin, regardless of their price.

Lower-priced vs. premium net sales growth



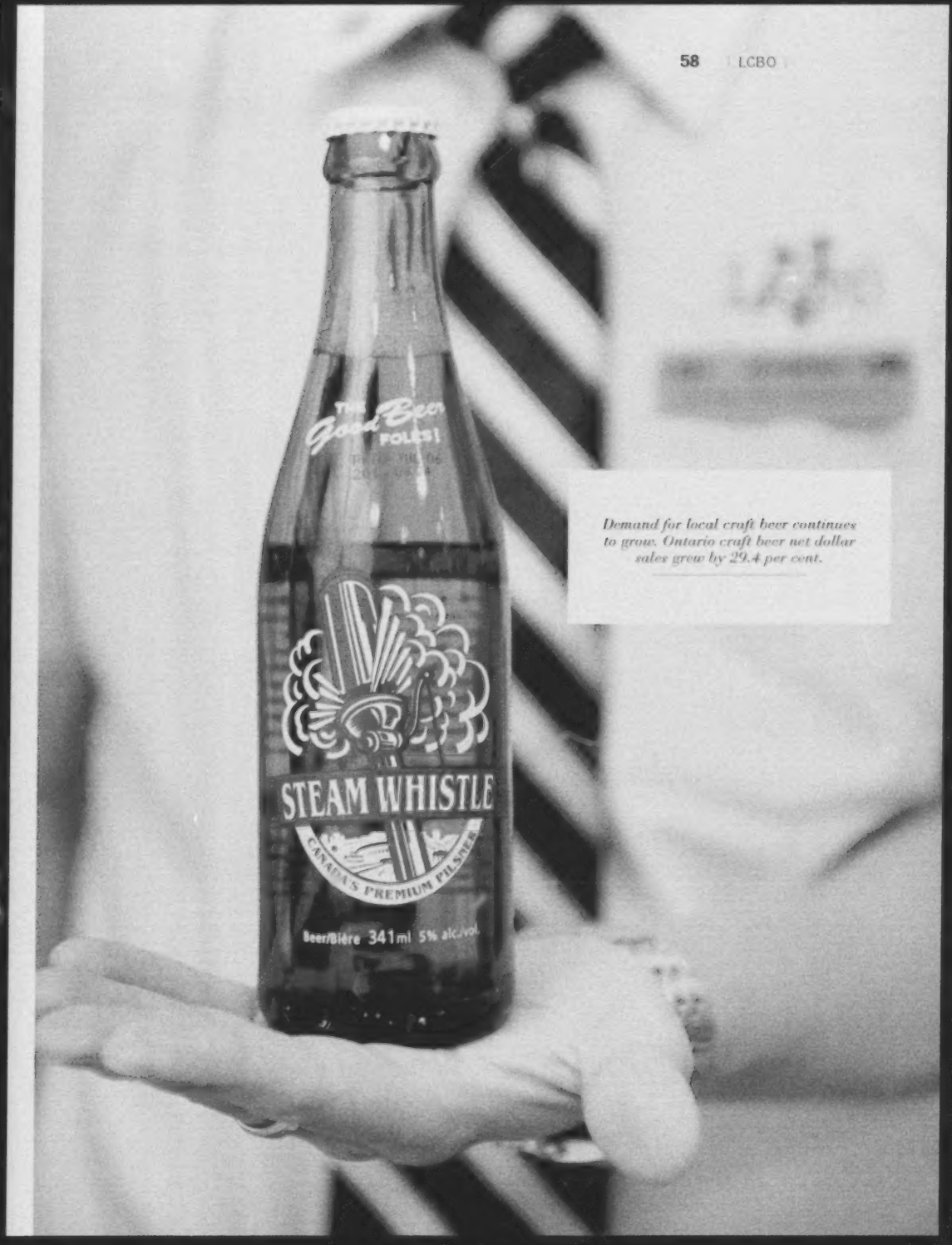
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In this section, expenses refer to all selling, general and administrative (SG&A) expenses as per the audited Statement of Earnings.

LCBO kept total expenses below plan by $5.6 million in 2012. Compared to the previous year, however, there was a 3.5 per cent rise to $741.0 million.

Divisional expenses were 3.8 per cent higher than last year, representing approximately 83 per cent of the $741.0 million total. Retail stores accounted for just over 80 per cent of this increase, owing to new and relocated stores. Prudent spending by Sales & Marketing and administrative functions reduced the unfavourable variance from plan, resulting in total divisional expenses of 0.4 per cent over budget.

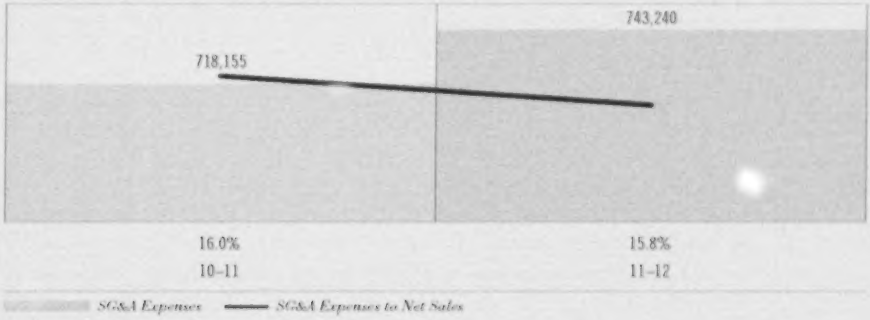
Corporate expenses, representing almost 17 per cent of the $741.0 million total, exceeded 2011 levels by 1.6 per cent, but remained below plan by 6.6 per cent. Increased debit/credit charges and spending on environmental initiatives contributed to the negative variance compared to the previous year. Depreciation, the largest component of corporate expenses, was 2.5 per cent below last year's figure and 6.8 per cent less than plan.



Demand for local craft beer continues to grow. Ontario craft beer net dollar sales grew by 29.4 per cent.

In fiscal 2012, the expense to net sales ratio was 15.7 per cent, 20 basis points below the prior year of 15.9 per cent and also 20 basis points below plan. Each percentage point difference in this ratio represents a change of approximately $47 million.

Expense comparison *(values in $000)*



INVENTORY

Total inventory turns remained at last year's level of 7.6, but fell slightly below target of 7.7. By category, there were improvements in Beer and Wine, with respective increases of 16.1 to 17.3 and 6.3 to 6.5. Total Spirits turns dipped from 8.9 to 8.8, while VINTAGES went from 3.3 turns to 3.2 in 2012.

Retail inventory turns of 13.2 were 0.2 below last year and 0.4 less than plan, while warehouse inventory turns advanced to 13.3, 0.4 better than a year ago and 0.2 ahead of the year's target.

Average net inventory investment during 2012 was $1.4 million, $3.0 million higher than the previous year's average.

FINANCIAL AND OPERATING RATIOS

	2012	vs. 2011	vs. Plan
Net earnings as a percentage of revenues	35.2%	34.7%	35.0%
Gross margin as a percentage of revenues	50.2%	50.0%	50.4%
Selling, general and administrative expenses as percentage of revenues	15.7%	15.9%	15.9%

Net earnings improved to 35.2 per cent of revenues for the year, surpassing last year's ratio of 34.7 per cent and the budgeted ratio of 35.0 per cent.

Gross margin as a percentage of revenues was 50.2 per cent for the year, slightly below the target of 50.4 per cent but above the previous year's ratio of 50.0 per cent.

Selling, general and administrative expenses came in at 15.7 per cent of revenues, 20 basis points below last year's and plan number of 15.9 per cent.

PRODUCTIVITY RATIOS

To help track expenses and to identify areas of focus, the LCBO sets targets for many productivity ratios each year. For example, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses.

Retail Productivity Highlights

	2012	2011	Plan
Store expenses as percentage of sales	10.4%	10.5%	10.4%
Store salary per unit sold	$ 0.72	$ 0.72	$ 0.69
Store expenses per unit sold	$ 1.06	$ 1.05	$ 1.03
Unit sales per hour	43.3	42.0	44.1
Sales per customer	$ 33.66	$ 32.91	$ 33.54
Sales per square foot	$ 1,850	$ 1,832	$ 1,830

Store expenses as a percentage of sales were 10.4 per cent, on target and slightly better than last year by 10 basis points. For every unit sold during 2012, the average expense per store was $1.06, one cent higher than the previous year and three cents greater than budget. Of the $1.06, salaries are responsible for $0.72, unchanged from last year, but three cents higher than target.

In 2012, customers spent on average $0.75 more per transaction than they did the previous year. The $33.66 per customer sale reflects an all-time high, exceeds pre-recessionary levels and surpassed per transaction expectations for the year by $0.12.

Signs of customers trading back up were also evidenced through the $1,850 sales per store square foot, $32 higher than 2011. This exceeded the year's expectation of $1,830. LCBO has added significant selling space over the past few years and this has moderated square footage sales growth.

Logistics – Productivity Highlights

	2012	2011	Plan
Warehouse salary cost per case	$ 1.03	$ 1.02	$ 1.03
Warehouse cost per case	$ 1.25	$ 1.24	$ 1.24
Distribution cases per hour	73	73	70

LCBO logistics productivity ratios were modest relative to previous year's results and annual targets. Total warehouse cost per case, including freight, was $1.25 during the year compared to $1.24 last year as well as the 2012 target. Salaries made up the largest portion of this figure at $1.03 for the year, equalling the plan but one cent higher than last year.

Distribution cases per paid hour remained at the 2011 level of 73, which was three cases better than plan.

CAPITAL EXPENDITURES

The LCBO remained committed to investing in its retail stores during 2012. The organization upgraded more locations to current corporate standards, increased the total number of stores in the province, and improved service in markets where population growth is occurring or is projected. Total capital expenditures rose 20.5 per cent compared to the previous year, with the Retail and Logistics divisions accounting for all of this increase.

($000)	2012	2011
Retail	49,148	36,767
Retail Store Development and Real Estate	552	629
Information Technology	8,145	10,916
Logistics	8,186	5,130
Marketing and Customer Insights	266	180
Other Administrative Divisions	2,962	2,616
Total Capital Expenditures	69,259	56,238

ENTERPRISE RISK MANAGEMENT

The LCBO has implemented an Enterprise Risk Management (ERM) program consisting of a risk framework, an annual ERM assessment, continuous monitoring of key risks and semi-annual reporting to the Audit Committee of the Board of Directors. In 2012, 26 risks that could negatively impact the LCBO's performance were identified and ranked. In addition, responsibility for developing and implementing risk mitigation strategies was assigned to senior management.

Three risks considered key by the LCBO are:

1. Government policy and legislative change;
2. Talent and succession management; and
3. Economic volatility.

Government Policy and Legislative Change

The LCBO must be able to respond quickly to changes in legislation and regulation, inter-provincial and international trade agreements, and public service directives and standards, carefully balancing its roles as a public agency and a customer-focused retailer. The LCBO provides input and advises government on the potential impacts on LCBO's financial performance and operations of any policy and legislative changes.

Talent and Succession Management

A large number of key management staff will become eligible for retirement within the next three years. This potential loss of corporate knowledge could negatively impact decision making and program implementation at all levels of the LCBO. In addition, attracting, retaining and engaging top talent for key positions are very challenging and are expected to continue as competition for this talent intensifies. To manage this risk, the LCBO has implemented succession planning initiatives including a mentoring program for newly-appointed store managers and a corporate succession plan that facilitates knowledge transfer from retiring senior-level managers. In addition, compensation competitiveness at the management level is extremely important and continues to be researched and monitored accordingly.

> **LCBO REVENUES ARE FORECAST TO INCREASE TO $4.9 BILLION IN 2012–13.**

Economic Volatility

Economic factors such as unemployment levels, household debt, commodity price changes and fluctuations in interest rates, exchange rates and inflation all impact consumer spending patterns. Given its discretionary nature, consumer spending on beverage alcohol is vulnerable to changes in the economy. Management regularly monitors global and domestic economic conditions in order to estimate their impact on LCBO's operations and factors in these estimates into its strategic and financial plans with a view to achieving excellence in customer service as well as operational efficiency.

LOOKING AHEAD

LCBO revenues are forecast to increase to $4.9 billion in 2012–13 (hereafter referred to as 2013), representing a 3.9 per cent increase over 2012.

Gross margin forecast growth mirrors that for revenues and is expected to remain flat, at 50.2 per cent of the latter. The 3.9 per cent forecast rise in gross margin equates to $2.5 billion in 2013.

Additional net earnings of $47.5 million are forecast for the coming year, representing 2.9 per cent growth on the $1.7 billion achieved in 2012. This will allow for the 19th consecutive increase in the dividend transferred to the Government of Ontario by the LCBO. The total dividend forecast for 2013 is $1.7 billion, $70 million more than the amount transferred this year, reflecting a 4.3 per cent increase.

to $628.7 million, UNIVERS sales were the best ever this past years, net sales were up 10.2 per cent year-over-year.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") announced that Canadian GAAP ("CGAAP") for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. LCBO is a government business enterprise, which reports under the same basis of accounting as publicly accountable enterprises as directed by the Public Sector Accounting Standards Board.

These financial statements represent the first annual financial statements of the Board prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Canadian GAAP differs in various areas from IFRS. In preparing these financial statements, management has amended certain accounting measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 25 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS, along with line-by-line reconciliations of the Statements of financial position and Statements of equity as at March 31, 2011 and April 1, 2010, and the Statements of earnings and Statements of comprehensive income for the year ended March 31, 2011.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

OPENING BALANCE SHEET – APRIL 1, 2019

First-time Adoption of International Financial Reporting Standard ("IFRS 1") Elections

IFRS 1 allows preparers to make certain elections upon the initial adoption of IFRS as of the opening balance sheet date. The election options that are relevant to LCBO and the decisions made by LCBO with respect to those options, along with the resulting financial impact, are discussed below:

IFRS 1 Standard	Option	Decision and Financial Impact on LCBO's April 1, 2019 Opening Balance Sheet
Fair value or revaluation as deemed cost	This exemption allows a first time adopter to initially measure an item of capital assets and intangible assets upon transition to IFRS at either fair value or a previous GAAP valuation (i.e. historical cost) and set this as the deemed cost at that date.	LCBO has chosen to continue to use historical cost for items of capital assets and intangible assets. Upon transition, there was no financial impact.
Employee benefits	This exemption permits a first time adopter to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in the retained earnings on the transition date.	LCBO has chosen to take this election, resulting in the recognition of previously unrecognized actuarial losses as a charge to opening retained earnings and an increase in the non pension employee benefits. Upon transition to IFRS, the LCBO recognized an increase in non pension employee benefits and a decrease to opening retained earnings of $[illegible] million, respectively.

Accounting Policy Changes

There are several differences between IFRS requirements and GAAP accounting policies. IFRS 1 requires that entities reflect the adoption of IFRS as if they had always been applying IFRS. Therefore, certain accounting policy changes that LUKOIL has chosen to implement required an opening balance sheet adjustment in order to reflect the impact of applying IFRS as of April 1, 2010 being the opening IFRS balance sheet date as follows:

Standard	Comparison between previous GAAP and IFRS	Conclusion
IAS 16 Property, Plant and Equipment ("Capital assets")	Previous GAAP. The historical cost model is used. Capital assets are to be recorded at cost upon initial acquisition and are to be depreciated over the useful lives of the asset class. In addition, GAAP provides an option to compensation capital assets when an entity is able to do so. IFRS. Has more specific guidance on capitalization and requires component-location of capital assets. In addition, after initial recognition, there is the option to measure capital assets using the cost model or the revaluation model.	LUKOIL will continue to use the cost model, which will minimize ongoing compliance costs of fair value appraisals and minimize earnings volatility. LUKOIL re-componentized and refined the useful lives of capital assets as of their initial recognition date. The impact was deemed to be insignificant and no adjustment was required as of the opening IFRS balance sheet date of April 1, 2010. Furthermore, LUKOIL elected to early adopt these refinements to capital assets for purchases made after April 1, 2010. This application is acceptable under both GAAP & IFRS.

[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

Standard	Comparison between previous CGAAP and IFRS	Conclusion
IAS 19: Employee Benefits ("other long-term employee benefits")	Previous CGAAP: Certain other long term employee benefits, such as Long-term Income Protection benefits ("LTIP") are recognized within net income when these benefits are received by the employee. IFRS: Other long-term employee benefits are recognized when an event occurs and an employee is eligible to receive benefits while not providing active service.	LCBO has adopted a policy to recognize LTIP benefits in the fiscal year an event occurs where an employee is eligible to receive benefits while not providing active service. Upon transition to IFRS, the LCBO recognized an increase in non-pension employee benefits and a decrease to retained earnings of $11.4 million respectively in the opening IFRS balance sheet and $13.9 million in the March 31, 2011 Statements of financial position. These amounts were not material to either year's financial statements.
IAS 36: Impairment of Assets ("Impairment)	Previous CGAAP: Capital assets and intangible assets are tested for impairment when events or circumstances indicate their carrying value exceeds the sum of the undiscounted cash flows expected from their use and disposal. An impairment loss is measured as the amount by which the carrying values of the asset or asset group exceed their fair values. Assets are reviewed for impairment at least annually. IFRS: Assets must be tested for impairment at the cash-generating unit level ("CGU"). A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses can be reversed in subsequent years.	LCBO has adopted a policy of testing assets for impairment at the CGU level. The CGU level is defined as the independent cash flows at the store level. Upon transition to IFRS, the LCBO determined that impairments were not material and no adjustments were required.

OTHER IFRS CONSIDERATIONS

LCBO identified other balance sheet presentation changes that had no significant retained earnings impact. These changes included a reclassification of certain beer container deposits from inventories to trade and other receivables; and recognition of provisions that reduced opening retained earnings and increased liabilities. LCBO wrote off certain assets that were deemed to be more appropriately classified in operating expenses.

SUMMARY OF IFRS IMPACT TO RETAINED EARNINGS AS AT APRIL 1, 2010 AND MARCH 31, 2011.

The following is a summary of the impacts to LCBO's Retained Earnings as at April 1, 2010 and March 31, 2011:

	March 31, 2011	April 1, 2010
Total equity reported under Canadian GAAP	392,095	379,786
IFRS transitional adjustments		
Actuarial losses	(13,466)	(12,444)
Short-term employee benefits	(7,339)	(7,131)
Non-pension employee benefits	(13,875)	(11,406)
Property, plant & equipment	(1,691)	(1,423)
Provisions	(361)	(302)
Total IFRS transitional adjustments	(36,732)	(32,706)
Total equity reported under IFRS	355,363	347,080

NON CGAAP/IFRS FINANCIAL MEASURES

Non CGAAP/IFRS financial measures are measures, which assist management in evaluating the Board's operating performance against its expectations and against other companies in the retail industry, as well as identifying underlying trends. Non CGAAP/IFRS financial measures include same store sales, which is the metric used by management, and most commonly used in the retail industry, to compare retail sales growth in a more consistent manner across the industry. Same store sales encompass all stores that have been in the same location and format for 13 full periods, and thus exclude all stores that were new, moved, renovated and closed during that period. For the years ended March 31, 2011 and March 31, 2012, there had been nominal changes to the Board's non CGAAP/IFRS financial measures as a result of the transition to IFRS.

Other Non CGAAP/IFRS financial measures were minimally affected by the transition to IFRS.

The adoption of IFRS in 2011 resulted in a decrease to comprehensive income of $4.0 million.

CRITICAL ACCOUNTING ESTIMATES

Non-pension employee benefits

The present value of the non-pension employee benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the expense for the non-pension employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

The Board determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Board uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions

The significant assumptions used are as follows:

	CSC & ECTB		WCB		LTIP	
	2012	2011	2012	2011	2012	2011
Discount rate to determine the benefit obligation	3.50%	4.50%	3.50%	4.50%	3.50%	4.50%
Discount rate to determine the benefit cost	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Salary rate increase	3.00%	3.00%	4.00%	4.00%	2.50%	2.50%
Health cost rate increase	N/A	N/A	6.50%	6.50%	8.00%	8.00%

Sensitivity analysis

An increase of 0.5 per cent in the *discount rate to determine the benefit obligation* would decrease the benefit obligation by $3.8 million. A decrease of 0.5 per cent in the *discount rate to determine the benefit obligation* would increase the benefit obligations by $4.1 million.

An increase of 0.5 per cent in the *discount rate to determine the benefit cost* would decrease the benefit cost by $1.7 million. A decrease of 0.5 per cent in the *discount rate to determine the benefit cost* would increase the benefit cost by $1.9 million.

An increase of one per cent in the *health cost rate increase* would increase the benefit obligations by $ 0.79 million. A decrease of one per cent in the *health cost rate increase* would decrease the benefit obligations by $0.69 million.

NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments – Disclosure

The International Accounting Standards Board (the "IASB") has issued an amendment to IFRS 7, "Financial Instruments: Disclosures" (the "IFRS 7 amendment"), requiring incremental disclosures regarding transfers of financial assets. The IFRS 7 amendment is effective for annual periods beginning on or after July 1, 2011 and can be applied prospectively. The Board is assessing the potential impact of this standard but does not expect the implementation to have a significant impact on the Board's disclosures.

Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial instruments: recognition and Measurement" ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes attributable to changes in the liability's credit risk are recognized in other comprehensive income, instead of earnings, unless this would create or enlarge an accounting mismatch in earnings. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and must be applied retrospectively. The Board is assessing the potential impact of this standard, but does not expect the implementation to have a significant impact on the Board's disclosure.

Fair Value Measurement

The IASB has issued IFRS 13, "Fair Value Measurement" ("IFRS 13"), which defines fair value, sets out in a single IFRS a framework for measuring fair value and provides specific disclosures for fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Board is assessing the potential impact of this standard, but does not expect the implementation to have a significant impact on the Board's disclosure.

Presentation of Financial Statements – Other Comprehensive Income

The IASB has amended IAS 1, "Presentation of Financial Statements" ("IAS 1 amendment") to improve consistency and clarity of the presentation of items of other comprehensive income. The amendment requires an entity to group together items within other comprehensive income that may be subsequently reclassified to earnings in order to further illustrate the effects the items of other comprehensive income may have on future earnings. The IAS 1 amendment is effective for annual periods beginning on or after July 1, 2012 and must be applied retrospectively. The Board is assessing the potential impact of this standard.

Post-Employment Benefits

The IASB has issued amendments to IAS 19, "Employee Benefits" ("IAS 19"), which eliminates the option to defer the recognition of actuarial gains and losses through the "corridor" approach, requires recognition of remeasurements in other comprehensive income and enhanced disclosure about defined benefit plans. IAS 19 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. This amendment is not expected to have any significant impact as the Board already immediately records any actuarial gains and losses in other comprehensive income, or earnings depending on the benefits characteristics.

RESPONSIBILITY FOR FINANCIAL REPORTING

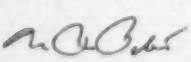
The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, which complies with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of five members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:



N. Robert Peter
President & Chief Executive Officer

Rob Dutton
Senior Vice President, Finance & Administration, and Chief Financial Officer

June 28, 2012

AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

June 28, 2012
Toronto, Ontario

Jim McCarter, FCA
Auditor General, Licensed Public Accountant

STATEMENTS OF EARNINGS

(thousands of Canadian dollars)

Years Ended March 31,	2012	2011
Revenues *(Note 17)*	4,711,550	4,493,284
Cost of sales *(Note 7)*	(2,346,690)	(2,245,484)
Gross margin	2,364,860	2,247,800
Other income	37,276	31,562
Selling, general and administrative expenses *(Note 18)*	(740,988)	(716,240)
Earnings from operations	1,661,148	1,563,122
Finance income *(Note 20)*	1,791	1,233
Finance costs *(Note 12 and 20)*	(4,705)	(4,371)
Net earnings	1,658,234	1,559,984

See accompanying notes to the financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

(thousands of Canadian dollars)

Years Ended March 31,	2012	2011
Net earnings	1,658,234	1,559,984
Other comprehensive income (loss):		
Actuarial (losses) on non-pension employee benefits *(Note 12)*	(4,030)	(1,701)
Total other comprehensive income (loss)	(4,030)	(1,701)
Total comprehensive income	1,654,204	1,558,283

See accompanying notes to the financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)	As at March 31 2012	As at March 31 2011	As at April 1 2010
ASSETS			
Current assets			
Cash and cash equivalents *(Note 4)*	249,392	222,060	217,791
Trade and other receivables *(Note 5)*	32,023	27,309	25,805
Inventories	356,944	372,271	342,434
Prepaid expenses	30,270	26,963	13,574
Total current assets	668,629	648,603	599,604
Non-current assets			
Property, plant and equipment *(Note 8)*	284,516	270,130	267,747
Intangible assets *(Note 9)*	27,106	25,683	25,276
Total non-current assets	311,622	295,813	293,023
Total assets	980,251	944,416	892,627
LIABILITIES			
Current liabilities			
Trade and other payables *(Note 6)*	471,439	465,407	427,060
Provisions *(Note 11)*	17,650	16,941	16,771
Current portion of non-pension employee benefits *(Note 12)*	12,017	12,728	12,161
Total current liabilities	501,106	495,076	455,992
Long-term liabilities			
Non-pension employee benefits *(Note 12)*	99,578	93,977	89,555
Total liabilities	600,684	589,053	545,547
EQUITY			
Retained earnings	385,298	357,064	347,080
Accumulated other comprehensive income	(5,731)	(1,701)	–
Total equity	379,567	355,363	347,080
Total liabilities and equity	980,251	944,416	892,627

See accompanying notes to the financial statements.

Approved By:

Chair

Board Member, Chair, Audit Committee

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

STATEMENTS OF CHANGES IN EQUITY

(Thousands of Canadian dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Opening balance, April 1, 2011	357,064	(1,701)	355,363
Net earnings	1,658,234		1,658,234
Non-pension employee benefit actuarial losses		(4,030)	(4,030)
Total comprehensive income	1,658,234	(4,030)	1,654,204
Dividends paid to the province	(1,630,000)		(1,630,000)
Ending Balance, March 31, 2012	385,298	(5,731)	379,567

	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Opening balance, April 1, 2010	347,080	–	347,080
Net earnings	1,559,984		1,559,984
Non-pension employee benefit actuarial losses		(1,701)	(1,701)
Total comprehensive income	1,559,984	(1,701)	1,558,283
Dividends paid to the province	(1,550,000)		(1,550,000)
Ending Balance, March 31, 2011	357,064	(1,701)	355,363

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)

Years Ended March 31,	2012	2011
Cash flows from operating activities		
Net earnings	1,658,234	1,559,984
Amortization & depreciation	50,870	52,166
Non-pension employee benefit expenses	12,275	15,448
Non-pension employee benefit payments	(11,415)	(12,161)
(Gain) on sale of property, plant and equipment and intangible assets	(649)	(366)
	1,709,315	1,615,071
Adjustments for:		
(Increase) in trade and other receivables	(4,714)	(1,504)
(Increase)/ Decrease in inventories	15,327	(29,837)
(Increase) in prepaids	(3,307)	(13,389)
Increase in trade and other payables	6,032	38,347
Increase in provisions	709	170
Change in non-cash working capital	14,047	(6,213)
Net cash generated from operating activities	1,723,362	1,608,858
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(69,259)	(56,238)
Proceeds from sale of property, plant and equipment and intangible assets	3,229	1,649
Net cash used in investing activities	(66,030)	(54,589)
Cash used from financing activities		
Dividend paid to the Province of Ontario	(1,630,000)	(1,560,000)
Net cash used for financing activities	(1,630,000)	(1,560,000)
Increase in cash during the year	27,332	4,269
Cash and cash equivalents, beginning of year	222,060	217,791
Cash and cash equivalents, end of year	249,392	222,060

See accompanying notes to financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 29 to these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

1. GENERAL INFORMATION

The Liquor Control Board of Ontario ("the Board") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The Board is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, the Board is exempt from income taxes. The Board transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

The Board's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

2. BASIS OF PREPARATION

a. Statement of compliance

These financial statements represent the first annual financial statements of the Board prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Board adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was April 1, 2010. In accordance with IFRS, the Board has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of April 1, 2010, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Board's financial statements were previously prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). Canadian GAAP differs in various areas from IFRS. In preparing these financial statements, management has amended certain accounting measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 25 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS, along with line-by-line reconciliations of the Statement of financial position and Statement of equity as at March 31, 2011 and April 1, 2010, and the Statement of earnings and Statement of comprehensive income for the year ended March 31, 2011.

The financial statements are presented in Canadian dollars ("C$"), the Board's functional currency.

The audited financial statements were approved by the Board of Directors and authorized for issue on June 26, 2015.

b. Basis of presentation

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit and loss.

Use of estimates and judgments

The Board makes judgments and assumptions concerning the future that impact the application of policies and reported amounts. Judgment is used mainly in determining whether a balance or transaction should be recognized in the financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. The resulting accounting estimates calculated using these judgments and assumptions will, by definition, seldom equal the related actual future results as they are based on historical experience and expectations of future events.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. Non-pension employee benefits

The present value of the non-pension employee benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the expense for the non-pension employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

The Board determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Board uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 12.

ii. Depreciation and amortization

The Board exercises judgment to determine useful lives of intangibles, and each significant component of property, plant and equipment. The assets are depreciated or amortized over their estimated useful lives. Additional disclosures are presented in Note 8 and 9.

iii. Impairment of property, plant and equipment and intangible assets

The Board has determined each store as a separate cash generating unit ("CGU"). Where there are indicators for impairment, the Board performs an impairment test.

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[illegible] [illegible] [illegible] [

c. New standards & interpretations not yet adopted

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments that have not been applied in preparing our March 31, 2012 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	Previous standard	Effective date
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value	Various – no direct replacement	January 1, 2013

The Board continues to evaluate the potential impact of standards and amendments effective in future periods on both quantitative and qualitative disclosure.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Cash & Cash Equivalents

Cash and cash equivalents comprise of cash and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

The Board's investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, bankers' acceptances and term deposits.

b. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

Account receivables are net of an allowance for impairment where there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivables. The allowance/loss is recognized as a selling, general and administrative expense in the Statement of earnings. In accordance with the Board purchase order agreement, the Board may offset any amounts that are payable by a supplier against amounts that are payable to a supplier. The resulting disclosures are presented in Note 5.

c. Inventories

The Board values inventories at the lower of cost and net realizable value with cost being determined by the weighted average cost method. Cost includes the cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. The Board estimates net realizable value as the amount that inventories are expected to be sold at, less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 7.

d. Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of earnings over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

- Buildings 5–40 years
- Leasehold Improvements 5–20 years
- Furniture and Equipment 5–20 years
- Computer Equipment 3 years or 4 years

Land assets are carried at cost, less any recognized impairment losses and are not depreciated. The Board reviews for any indicators of impairment annually; refer to the "Impairment of property, plant and equipment and intangible assets" section below.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to the Board, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of earnings as incurred.

The resulting disclosures are presented in Note 8.

e. Intangible assets

i. Acquired intangible assets

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

- Computer software 3 years or 4 years

The resulting disclosures are presented in Note 9.

ii. Internally generated intangible assets – research & development costs

Research costs are expensed as incurred.

Development expenditures incurred are capitalized only if all the following criteria are met:

- an asset is created that can be identified (such as software or new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use, these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

f. Impairment of property, plant and equipment and intangible assets

Annually the Board reviews the carrying amounts of its property, plant and equipment and intangible assets for indicators of impairment to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Board estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the statement of earnings in the year in which it occurs. The resulting disclosures are presented in Note 8 and 9.

g. Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non interest-bearing and are stated at amortized cost. The resulting disclosures are presented in Note 6.

h. Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 11.

i. Financial instruments

Financial assets and financial liabilities are recognized when the Board becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

The Board's financial assets and liabilities are generally classified and measured as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivable or available for sale	Fair value which approximates amortized cost due to the short-term nature of the instruments.
Trade and other receivables	Loans and receivable	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Derivatives and embedded derivatives[1]	Fair value through profit and loss ("FVTPL")	Fair value through profit and loss ("FVTPL")

1 Derivatives are included in Trade and other payables in the Statement of financial position.

i. Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that the Board manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial instruments classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of earnings in the period in which they arise.

Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

A derivative financial instrument is a fixed price commitment to buy or sell a financial instrument at a future date. Derivatives financial instruments are classified as at FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of earnings. The resulting disclosures are presented in Note 15.

iv. Embedded derivatives

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. The Board enters into inventory purchase contracts in currencies other than the Canadian dollar or that of the supplier's home or local currency, in which an embedded derivative may exist.

These embedded derivatives are accounted for as separate instruments and accounted for independently from the host contract and are measured at fair value at the end of the reporting period using forward exchange market rates. Embedded derivatives are included within trade and other payables in the Statement of financial position, any changes in their fair values are recognized in the Statement of earnings. The resulting disclosures are presented in Note 15.

j. Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Board's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably. Revenue is recorded net of returns, discounts, applicable taxes and container deposits, in the Statement of earnings.

Revenue generated from gift cards is recognized when gift cards are redeemed. The Board also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

k. Other income

i. Services rendered

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist principally of border-point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

ii. Unredeemed ODRP container deposits

The Board recognizes income from estimated unredeemed ODRP container deposits as not all customers return the container for their deposit. The Board determines its ODRP container redemption rate based on historical redemption data and research of industry experience and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 23.

iii. AIR MILES®[1]

Income from the AIR MILES® Reward Program is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct

components: (1) base and (2) bonus. The associated costs of the base are accounted for as a reduction to revenues in the Statement of earnings. The associated income net of costs of the bonus are accounted for as a reduction to cost of sales in the Statement of earnings.

l. Vendor allowances

The Board receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in-store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. The Board recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of earnings. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by the Board for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. The consideration is reflected as a reduction in selling, general and administrative expenses.

m. Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. The Board recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if the Board has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 19.

ii. Pension Benefit Costs

The Board provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines the Board's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Board.

The Board's contributions to both plans are accounted for on a defined contribution basis with the Board's contribution charged to the Statement of earnings in the period the contributions become payable. The resulting disclosures are presented in Note 12.

iii. Non-pension employee benefits

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and long-term income protection ("LTIP") benefits. These plans provide benefits to employees when they are no longer providing active service. The Board accrues these employee benefits over the periods in which the employees earn the benefits. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of earnings.

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1 AIR MILES® is a trademark of International Trading B.V. Used under license by Loyalty Management Group Canada Inc.

The cost of the CSC, ECTB and LTIP was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was determined using the average awards method. The annual benefit cost is the sum of the service cost, one year's interest cost and any amortization of gains and losses.

The Board recognizes all actuarial gains and losses arising from the CSC and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over employee's years of service. Any actuarial gains and losses arising from the LTIP and WCB benefits are recognized in the Statement of earnings in the period in which they arise, since LTIP and WCB benefits are based upon an event of injury and/or disability. The resulting disclosures are presented in Note 12.

n. Finance income

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in the Statement of earnings, using the effective interest method. The resulting disclosures are presented in Note 20.

o. Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation. The resulting disclosures are presented in Notes 12 and 20.

p. Leasing

Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 10.

q. Foreign currencies

Transactions in currencies other than the Board's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange gains and losses are recognized immediately in the Statement of earnings.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include both cash on hand and in transit, and short term investments (such as term deposits and bankers acceptance), as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Cash on hand and in transit	88,062	66,511	75,190
Term deposits	17,995	63,000	35,699
Bankers' acceptances	143,335	92,549	106,902
	249,392	222,060	217,791

5. TRADE AND OTHER RECEIVABLES

	March 31, 2012	March 31, 2011	April 1, 2010
Trade and other receivables	32,290	27,511	25,905
Allowance for impairment	(267)	(202)	(100)
	32,023	27,309	25,805

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. As at March 31, 2012, approximately 68 per cent (2011 – 64 per cent) of the Board's accounts receivable is due from one customer. Almost all of the Board's receivables are due within 30 days.

The carrying amount of trade and other receivables is reduced through the use of an allowance for impairment at levels the Board considered adequate to absorb future credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of earnings.

6. TRADE AND OTHER PAYABLES

	March 31, 2012	March 31, 2011	April 1, 2010
Trade payables	234,631	229,407	206,064
Accruals and other payables	236,808	236,000	220,996
	471,439	465,407	427,060

7. INVENTORIES

All inventories are held for sale. The cost of inventories sold and recognized as a cost of sales during the year ended March 31, 2012 was $2,347 million (2011 – $2,245 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2012 (2011 – nil).

8. PROPERTY, PLANT & EQUIPMENT

Net book value of property, plant & equipment	March 31, 2012	March 31, 2011	April 1, 2010
Land	12,816	12,816	12,895
Buildings	106,289	105,694	107,123
Furniture and equipment	23,645	21,040	19,790
Leasehold improvements	110,646	111,441	106,284
Computer equipment	12,160	10,798	12,190
Construction in progress	18,960	8,341	9,465
	284,516	270,130	267,747

a. Property, plant & equipment

Property, plant & equipment continuity for the year ended March 31, 2012

	Land	Buildings	Furniture and equipment
Cost			
Balance at April 1, 2011	12,816	369,889	93,692
Additions	–	10,670	11,706
Disposals/Retirements	–	(2,223)	(6,207)
Transfers among categories	–	–	–
Balance at March 31, 2012	12,816	378,336	99,191
Accumulated depreciation and impairment			
Balance at April 1, 2011	–	264,195	72,652
Depreciation for the year	–	9,487	7,895
Impairment losses	–	–	(834)
Transfers among categories	–	–	–
Disposals/Retirements	–	(1,635)	(4,167)
Balance at March 31, 2012	–	272,047	75,546
Net book value at March 31, 2012	12,816	106,289	23,645

Property, plant & equipment continuity for the year ended March 31, 2011

	Land	Buildings	Furniture and equipment
Cost			
Balance at April 1, 2010	12,895	363,367	85,146
Additions	15	8,323	11,471
Disposals/Retirements	(94)	(1,801)	(2,925)
Transfers among categories	–	–	–
Balance at March 31, 2011	12,816	369,889	93,692
Accumulated depreciation and impairment			
Balance at April 1, 2010	–	256,244	65,356
Depreciation for the year	–	9,313	8,632
Impairment losses	–	–	–
Transfers among categories	–	–	–
Disposals/Retirements	–	(1,362)	(1,336)
Balance at March 31, 2011	–	264,195	72,652
Net book value at March 31, 2011	12,816	105,694	21,040

Leasehold improvements	Computer equipment	Construction in progress	Total
321,804	56,766	8,341	863,308
18,506	8,035	58,050	106,967
(1,792)	(27,404)	–	(37,626)
–	–	(47,431)	(47,431)
338,518	37,397	18,960	885,218
210,363	45,968	–	593,178
19,296	6,220	–	42,898
–	–	–	(834)
–	–	–	–
(1,787)	(26,951)	–	(34,540)
227,872	25,237	–	600,702
110,646	12,160	18,960	284,516

Leasehold improvements	Computer equipment	Construction in progress	Total
301,131	55,033	9,465	827,037
21,695	5,101	46,018	92,623
(1,022)	(3,368)	–	(9,210)
–	–	(47,142)	(47,142)
321,804	56,766	8,341	863,308
194,847	42,843	–	559,280
16,485	6,174	–	40,604
–	–	–	–
–	–	–	–
(969)	(3,049)	–	(6,716)
210,363	45,968	–	593,178
111,441	10,798	8,341	270,130

9. INTANGIBLES

Net book value of intangible assets	March 31, 2012	March 31, 2011	April 1, 2010
Computer software	22,340	24,874	19,144
Software in development	4,766	809	6,132
Total intangible assets at book value	27,106	25,683	25,276

a. Intangibles

Intangible assets continuity for the year ended March 31, 2012

	Software	Software under development	Total
Cost			
Balance at April 1, 2011	93,877	809	94,686
Additions	6,272	10,168	16,440
Disposals/Retirements	(41,567)	–	(41,567)
Transfers among category	–	(6,211)	(6,211)
Balance at March 31, 201	58,582	4,766	63,348
Accumulated amortization and impairment			
Balance at April 1, 2011	69,003	–	69,003
Amortization for the year	8,807	–	8,807
Impairment losses	–	–	–
Transfers among category	–	–	–
Disposals/Retirements	(41,568)	–	(41,568)
Balance at March 31, 201	36,242	–	36,242
Net book value at March 3, 2012	22,340	4,766	27,106

Intangible assets continuity for the year ended March 31, 2011

	Software	Software under development	Total
Cost			
Balance at April 1, 2010	80,573	4,132	84,705
Additions	13,629	8,774	21,403
Disposals/Retirements	(125)	(2,906)	(3,031)
Transfers among categories	–	(10,799)	(10,799)
Balance at March 31, 2011	93,677	809	94,486
Accumulated amortization and impairment			
Balance at April 1, 2010	43,259	–	43,259
Amortization for the year	7,846	–	7,846
Impairment losses	–	–	–
Transfers among categories	–	–	–
Disposals/Retirements	(73)	–	(73)
Balance at March 31, 2011	49,809	–	49,809
Net book value at March 31, 2011	54,878	809	55,687

10. OPERATING LEASE ARRANGEMENT

The Board enters into operating leases in the ordinary course of business, primarily for retail stores. Operating lease payments in 2012 were $99.3 million (2011 – $58.3 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2012
Not later than one year	63,900
Later than one year and not later than five years	250,139
Later than five years	403,177
	717,216

XX. PROVISIONS

The following table represents the changes to the Board's provisions:

Provisions continuity for the year ended March 31, 2012

	Short-term employee benefits	Other	Total
Balance at April 1, 2011	(3,180)	(80)	(3,260)
Charges recognized during the year	(7,420)	(80)	(7,500)
Utilization of provision	13,180	160	13,340
Balance at March 31, 2012	(7,420)	(80)	(7,500)

Provisions continuity for the year ended March 31, 2011

	Short-term employee benefits	Other	Total
Balance at April 1, 2010	(3,460)	(80)	(3,770)
Charges recognized during the year	(3,180)	(80)	(3,260)
Utilization of provision	13,460	160	13,770
Balance at March 31, 2011	(3,180)	(80)	(3,260)

	March 31, 2012	March 31, 2011	April 1, 2010
Disclosed as			
Current	(7,500)	(3,260)	(3,770)
Non-current	–	–	–
	(7,500)	(3,260)	(3,770)

The employee benefits provision includes vacation entitlements accrued by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when the Board agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends.

31 Employee benefits

a) Provision (gratuity)

For the year ended March 31, 2024, the Company has made ₹ 2,000 Lakhs (2022-23 : ₹ Nil Lakhs) contribution to gratuity trust. The Company has a defined benefit gratuity plan. The following tables summarise the components of net benefit expense recognised in the statement of profit and loss and the funded status and amounts recognised in the balance sheet for the gratuity plan.

b) Net expense recognised in statement of profit or loss

The net expense recognised towards gratuity obligations is ₹ Nil Lakhs (previous year ₹ Nil Lakhs) is included in contribution to provident and other funds (refer note 28) in the statement of profit and loss. The following tables summarise the components of net benefit expense recognised in the statement of profit and loss and the funded status and amounts recognised in the balance sheet for the gratuity plan.

The Net benefit expense is ₹ Nil Lakhs (previous year ₹ Nil Lakhs) is included in contribution to provident and other funds (refer note 28) in the statement of profit and loss. The following tables summarise the components of net benefit expense recognised in the statement of profit and loss and the funded status and amounts recognised in the balance sheet for the gratuity plan.

c) Movement in net defined obligation

The following table summarises the components of net benefit expense recognised in the statement of profit or loss and amounts recognised in the balance sheet:

	March 31, 24	March 31, 23	April 1, 22
	₹ Lakhs	₹ Lakhs	₹ Lakhs
Provision	[illegible]	[illegible]	[illegible]
Non current	[illegible]	[illegible]	[illegible]
Total net employee benefit obligations	[illegible]	[illegible]	[illegible]

d) Movement in funding

The net defined obligation movement benefit cost is recognised in the Statement of Profit and Loss as follows:

	March 31, 24	March 31, 23
	₹ Lakhs	₹ Lakhs
Current service cost	[illegible]	[illegible]
Actuarial losses on non-current benefits	[illegible]	[illegible]
Total cost included in employee	[illegible]	[illegible]
Interest cost	[illegible]	[illegible]
Total cost included in finance cost	[illegible]	[illegible]
Total net expense recognised in statement	[illegible]	[illegible]

iii. Other comprehensive income

The non-pension employee benefits recognized in the other comprehensive income are as follows:

	March 31, 2012	March 31, 2011
Opening cumulative actuarial (losses) recognized	(1,701)	–
Net actuarial (losses) recognized	(4,030)	(1,701)
Closing cumulative actuarial (losses) recognized	(5,731)	(1,701)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2012	March 31, 2011
Opening benefit obligation	106,705	101,716
Current service cost	7,073	7,583
Interest on obligation	4,705	4,791
Actuarial losses	4,528	4,776
Benefits paid	(11,415)	(12,161)
Closing benefit obligation	111,596	106,705

v. Significant assumptions

The significant assumptions used are as follows:

	CSC & ECTB		WCB		LTIP	
	2012	2011	2012	2011	2012	2011
Discount rate to determine the benefit obligation	3.50%	4.50%	3.50%	4.50%	3.50%	4.50%
Discount rate to determine the benefit cost	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Salary rate increase	3.00%	3.00%	4.00%	4.00%	2.50%	2.50%
Health cost rate increase	N/A	N/A	6.50%	6.50%	8.00%	8.00%

13. CONTINGENT LIABILITIES

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time, however, the ultimate disposition will not have a material effect on the financial statements. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingent liabilities will be accounted for in the period in which the settlement occurs.

14. FINANCIAL RISK MANAGEMENT

The nature of the Board's operations means that it is exposed to a variety of financial risks, which includes market risk (primarily currency risk), credit risk and liquidity risk. The Board's risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by the Board in accordance with its investment and foreign exchange risk management policy. The Board identifies, evaluates and mitigates financial risks.

a. Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. The Board minimizes credit risk associated with the various instruments as follows:

- derivative financial instruments and cash and cash equivalents are placed only with major Canadian chartered banks and Canadian subsidiaries of major banks. At March 31, 2012, all derivative instruments and cash and cash equivalents were held with major chartered banks and Canadian subsidiaries of major foreign banks.
- trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. The Board does not consider its exposure to credit risk associated with trade and other receivables to be material. As at March 31, 2012, approximately 68 per cent (2011 – 64 per cent) of the Board's receivable is due from one customer whose account is in good standing.
- where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 5 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that the Board may not have cash available to satisfy financial liabilities as they fall due. The Board seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it is able to satisfy financial liabilities as they fall due.

Cash that is surplus to working capital requirements is managed by the Board and invested in federal/provincial treasury bills, bankers' acceptances and bank term deposits, choosing maturities which are aligned with expected cash needs.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. Currently, the Board is exposed only to currency risk.

d. Currency Risk

The Board is exposed to currency risk with respect to future inventory purchases dominated in currencies other than Canadian dollar, primarily US dollars and Euros. The Board seeks to limit its exposure to currency risk by entering into Canadian dollar contracts on a majority of its inventory purchases. The Board also limits its exposure to movements in exchange rate by acquiring foreign exchange forward contract, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate.

- in the Board's assessment, a significant strengthening or weakening of the Canadian dollar against the US dollar or Euro, with all other variables held constant, would not have a significant impact on revenue.
- the overall effects of changes in exchange rates was a foreign exchange gain of $ 3.1 million in 2012 (2011 – $3.1 million).

15. FINANCIAL INSTRUMENTS

a. Foreign Exchange Forward Contracts

The Board uses foreign exchange forward contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. These derivative financial instruments are measured at fair value. As at March 31, 2012, the Board has no foreign exchange forward contracts (2011 – $nil).

b. Embedded Derivative

Embedded derivatives arise from the purchase of inventory in a currency other than Canadian dollar or that of the supplier's domestic or local currency. For the year ended March 31, 2012, the Board reviewed these contracts and determined that it does not have significant embedded derivatives or gains or losses resulting from these derivatives that require separate accounting and disclosure (2011 – $nil).

16. CAPITAL MANAGEMENT

The Board is a corporation without share capital and has no long-term debt. Its definition of capital is cash and cash equivalents and retained earnings. The Board's main objectives when managing its capital are:

- to ensure sufficient liquidity in support of its financial obligations to achieve its business plans;
- to maintain healthy liquidity reserves and access to capital as outlined in its investment and foreign exchange policies;
- to ensure that cash management decisions are based upon the preservation of capital as a primary objective; and
- to safeguard the Board's ability to remain as a self-sufficient going concern entity in order to provide continuous dividends to the Province.

As at March 31, 2012 the Board met these objectives.

In managing cash and cash equivalents, the Board maintains balances that are:

- sufficient to meet its accounts payable obligations due within the next 45–60 days;
- sufficient to meet the timing of dividend transfers; and
- sufficient to meet approved capital expenditures throughout the current period.

The Board is not subject to any externally imposed capital requirements.

17. REVENUE

Virtually all revenue is from the sale of goods.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

The components of selling, general and administration expenses include the following:

	March 31, 2012	March 31, 2011
Employee Costs *(Note 19)*	409,740	395,906
Occupancy Costs	131,921	126,452
Depreciation	50,870	52,166
Debit/Credit Charges	30,106	27,629
Environmental Initiatives	35,876	33,868
Other	82,475	80,219
	740,988	716,240

19. EMPLOYEE COSTS

Employee costs for the Board for the year ended amounts to the following:

	March 31, 2012	March 31, 2011
Salaries & wages	329,172	319,975
Short-term employee benefits	80,568	75,931
	409,740	395,906

20. FINANCE INCOME AND FINANCE COSTS

Finance income and costs recognized by the Board for the year ended amounts to the following:

	March 31, 2012	March 31, 2011
Finance income		
Interest earned	1,791	1,233
Total finance income	1,791	1,233
Finance costs		
Interest on non-pension employee benefits	4,705	4,371
Total finance costs	4,705	4,371

21. RELATED PARTIES

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Board. Key management personnel include members of the Board of Directors, president & chief executive officer, chief financial officer and the top 12 senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

Key management personnel compensation, including director's fees comprise of:

	March 31, 2012	March 31, 2011
Salaries and short-term employee benefits	3,501	3,846
Post-employment benefits	214	234
Other long term benefits	45	61
Termination benefits	43	332
	3,803	4,473

22. WASTE DIVERSION

The Board is responsible under the *Waste Diversion Act, 2002* to pay municipalities through Stewardship Ontario, an industry-funded, waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2012, the Board contributed $1.7 million (2011 – $1.8 million) and these expenditures are included in selling, general and administrative expenses in the Statements of earnings.

23. ONTARIO DEPOSIT RETURN PROGRAM

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through the Board and Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. Effective, February 6, 2012, the Province entered into another agreement with Brewers Retail Inc. for management of the program, thereby extending the program for another period of five years.

Under the program, the Board collects a deposit of 10 or 20 cents on wine, liquor and beer containers. The Board reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2012, the Board collected $58.9 million (2011 – $57.8 million) of deposits on containers which was included in the Statements of earnings. The Board was invoiced $47.2 million (2011 – $45.2 million) for refunds to the customers. These amounts are included in trade and other payables in the Statements of financial position.

In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2012, amounted to $34.2 million (2011 – $32.0 million), inclusive of $3.9 million (2011 – $2.9 million) of harmonized sales tax which is unrecoverable by the Board, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statements of earnings.

The Board's experience indicates that not all container deposits are redeemed. Based upon its redemption data and research of industry experience, part of the container deposits collected would not be redeemed. Based on historical redemption patterns, for the year ended March 31, 2012, the Board estimated an 80 per cent redemption rate for the program. Accordingly, for the year ended March 31, 2012, the Board applied $11.7 million (2011 - $11.6 million) of unredeemed deposits as an increase to other income.

24. THE BEER STORE DEPOSIT RETURN PROGRAM (TBS)

The Board participates in a separate deposit-refund system ("TBS program") that is managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. The TBS program is not mandated by government regulations; however, the TBS program is a requirement in participating and dealing with Brewers Retail Inc.

Under the TBS program, the Board purchases certain beer products from Brewers Retail Inc. whereby a deposit is paid to Brewers Retail Inc. for the containers. Subsequently, upon the eventual sale of the products, the Board collects any previous deposits paid directly from the customer. The Board has determined that it acts as an "agent" in the TBS program transaction, and the TBS program deposits paid and collected are offset and included in trade and other receivables in the Statements of financial position.

For the year ended March 31, 2012, $2.0 million (2011 – $2.2 million) is included in trade and other receivables related to the TBS program deposits.

25. TRANSITION TO IFRS

These financial statements represent the first annual financial statements of the Board prepared in accordance with IFRS, as issued by the IASB. The Board adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was April 1, 2010 ("transition date"). In accordance with IFRS, the Board has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of March 31, 2012, as required, and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Board's financial statements were previously prepared in accordance with Canadian GAAP.

a. IFRS 1 exemptions and elections

IFRS 1 requires retrospective application of IFRS as at the transition date. However, IFRS 1 allows certain optional exemptions and mandatory exceptions from the retrospective application requirement.

The Board has elected the following treatments relating to optional exemptions from retrospective application of IFRS at the transition date:

i. Property, plant and equipment and intangible assets – fair value or revaluation at deemed cost

Under IFRS 1 an entity may elect to revalue its property, plant and equipment and intangible assets at fair value at the transition date and use this fair value as the deemed transition cost. At the transition date, the Board did not take this exemption as the Board chose to measure its property, plant and equipment and intangible assets at its historical cost.

ii. Employee benefits – actuarial gain and losses

Under IFRS 1, an entity may elect to recognize all cumulative actuarial gains and losses at the date of transition through opening retained earnings. The Board chose to take this exemption and has recognized $12.4 million of actuarial losses through opening retained earnings at the transition date.

iii. Borrowing costs

IFRS requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or development of an asset that takes a substantial period of time to prepare for its intended use. IFRS 1 allows an entity to adopt this policy prospectively as at the date of transition. The Board has elected to take this exemption and will prospectively capitalize any applicable borrowing costs that are directly attributable to the acquisition, construction and development of assets that take a substantial period of time to prepare for its intended use.

IFRS 1 also provides certain mandatory exceptions to the retrospective application requirement. The Board has applied the following exception in preparing its opening and comparative financial statements:

iv. Estimates

Any estimates made in accordance with IFRS at the transition date are consistent with those determined under Canadian GAAP.

b. Reconciliation of equity from Canadian GAAP to IFRS

	March 31, 2011	April 1, 2010
Total equity reported under Canadian GAAP	392,095	379,786
IFRS transitional adjustments		
Actuarial losses *(Note1)*	(13,466)	(12,444)
Short-term employee benefits *(Note2)*	(7,339)	(7,131)
Non-pension employee benefits *(Note3)*	(13,875)	(11,406)
Property, plant & equipment *(Note4)*	(1,691)	(1,423)
Provisions *(Note5)*	(361)	(302)
Total IFRS transitional adjustments	(36,732)	(32,706)
Total equity reported under IFRS	355,363	347,080

c. Reconciliation of comprehensive income from Canadian GAAP to IFRS

Net earnings under Canadian GAAP	1,562,309
Adjustments	
Actuarial losses *(Note1)*	679
Short-term employee benefits *(Note2)*	(209)
Non-pension employee benefits *(Note3)*	(2,470)
Property, plant & equipment *(Note4)*	(268)
Provisions *(Note5)*	(57)
Total IFRS transitional adjustments	(2,325)
Net earnings under IFRS	1,559,984
Other comprehensive income under Canadian GAAP	–
Actuarial losses recognized through OCI *(Note7)*	(1,701)
Other comprehensive income under IFRS	(1,701)
Total comprehensive income under IFRS	1,558,283

d. Reconciliation of Opening IFRS Balance Sheet from Canadian GAAP to IFRS as at April 1, 2010

	Prepared under previous Canadian GAAP	IFRS Reclassification 7	Actuarial losses 1
ASSETS			
Current assets			
Cash and cash equivalents	217,791	–	–
Trade and other receivables	23,705	2,100	–
Inventories	344,534	(2,100)	–
Prepaid expenses	13,574	–	–
Total current assets	599,604	–	–
Non-current assets			
Property, plant and equipment & intangible assets	294,446	–	–
Total non-current assets	294,446	–	–
Total assets	894,050	–	–
LIABILITIES			
Current liabilities			
Trade and other payables	436,397	(9,337)	–
Provisions	–	9,337	–
Current portion of non-pension employee benefits	5,925	6,236	–
Total current liabilities	442,322	6,236	–
Long-term liabilities			
Non-pension employee benefits	71,942	(6,236)	12,444
Total long-term liabilities	71,942	(6,236)	12,444
Total liabilities	514,264	–	12,444
EQUITY			
Retained earnings	379,786	–	(12,444)
Accumulated other comprehensive income	–	–	–
Total equity	379,786	–	(12,444)
Total liabilities and equity	894,050	–	–

Short-term employee benefits 2	Non-pension employee benefits 3	Property, plant and equipment 4	Provisions 5	IFRS Adjustments	Total impact of IFRS	Prepared under IFRS
–	–	–	–	–	–	217,791
–	–	–	–	–	2,100	25,805
–	–	–	–	–	(2,100)	342,434
–	–	–	–	–	–	13,574
–	–	–	–	–	–	599,604
–	–	(1,423)	–	(1,423)	(1,423)	293,023
–	–	(1,423)	–	(1,423)	(1,423)	293,023
–	–	(1,423)	–	(1,423)	(1,423)	892,627
–	–	–	–	–	(9,337)	427,060
7,131	–	–	302	7,433	16,770	16,770
–	–	–	–	–	6,236	12,161
7,131	–	–	302	7,433	13,669	455,991
–	11,406	–	–	23,850	17,614	89,556
–	11,406	–	–	23,850	17,614	89,556
7,131	11,406	–	302	31,283	31,283	545,547
(7,131)	(11,406)	(1,423)	(302)	(32,706)	(32,706)	347,080
–	–	–	–	–	–	–
(7,131)	(11,406)	(1,423)	(302)	(32,706)	(32,706)	347,080
–	–	(1,423)	–	(1,423)	(1,423)	892,627

c. Reconciliation of statement of financial position from previous Canadian GAAP to IFRS as at March 31, 2011

	Prepared under previous Canadian GAAP	IFRS Reclassification 7	Actuarial losses 1
ASSETS			
Current assets			
Cash and cash equivalents	222,060	–	–
Trade and other receivables	25,090	2,219	–
Inventories	374,490	(2,219)	–
Prepaid expenses	26,963	–	–
Total current assets	648,603	–	–
Non-current assets			
Property, plant and equipment & intangible assets	297,504	–	–
Total non-current assets	297,504	–	–
Total assets	946,107	–	–
LIABILITIES			
Current liabilities			
Trade and other payables	474,648	(9,241)	–
Provisions	–	9,241	–
Current portion of non-pension employee benefits	7,583	5,145	–
Total current liabilities	482,231	5,145	–
Long-term liabilities			
Non-pension employee benefits	71,781	(5,145)	13,466
Total long-term liabilities	71,781	(5,145)	13,466
Total liabilities	554,012	–	13,466
EQUITY			
Retained earnings	392,095	–	(11,765)
Accumulated other comprehensive income	–	–	(1,701)
Total equity	392,095	–	(13,466)
Total liabilities and equity	946,107	–	–

Short-term employee benefits 2	Non-pension employee benefits 3	Property, plant and equipment 4	Provisions 5	Total IFRS Adjustments	Prepaid under IFRS
–	–	–	–	–	(20,280)
–	–	–	–	2,219	27,309
–	–	–	–	(2,219)	(72,271)
–	–	–	–	–	20,280
–	–	–	–	–	(48,962)
–	–	(1,858)	–	(1,858)	(58,463)
–	–	(1,858)	–	(1,858)	(58,463)
–	–	(1,858)	–	(1,858)	344,419
–	–	–	–	(9,240)	403,407
7,339	–	–	38	(1,941)	(1,941)
–	–	–	–	9,180	(3,739)
7,339	–	–	38	(1,940)	497,076
–	(3,875)	–	–	(1,198)	92,977
–	(3,875)	–	–	(25,198)	92,977
7,339	(3,875)	–	38	(31,541)	590,053
(7,339)	(13,875)	(1,858)	(38)	(35,020)	357,064
–	–	–	–	(1,755)	(1,755)
(7,339)	(13,875)	(1,858)	(38)	(36,775)	355,309
–	–	(1,858)	–	(1,858)	344,419

f. Reclassified statement of earnings format under previous Canadian GAAP for the year ended March 31, 2011

Format under previous Canadian GAAP	March 31, 2011	Adjustment	Nature of statement of earnings under IFRS
Sales	6,370,877	(30,858)	6,340,019
Cost of sales	2,279,777	(4,214)	2,283,991
	–	(26,177)	(26,177)
	–	31,760	31,760
Retail store and marketing	486,032	(486,032)	–
Warehousing and distribution	87,192	(87,192)	–
Administration	113,758	(113,758)	–
Amortization	59,232	(59,232)	–
		713,317	713,317
		5,108	5,108
		1,259	1,259
		6,371	6,371
Net earnings	1,302,309	–	1,302,309

g. Reconciliation of statement of earnings from previous Canadian GAAP to IFRS for the year ended March 31, 2011

	Function of expenses format under previous Canadian GAAP		
	Nature of statement of earnings under IFRS	Actuarial losses	Short-term employee benefits
		1	2
Revenue	6,340,019	–	–
Cost of sales	2,283,991	–	–
Gross margin	4,056,028	–	–
Other income	31,760	–	–
Selling, general and administrative expenses	713,317	(270)	226
Earnings from operations	1,303,387	270	(226)
Finance income	1,259	–	–
Finance costs	6,371	–	–
Net earnings	1,302,309	270	(226)

	March 31, 2011
Format under IFRS	
Revenue	6,955,284
Cost of sales	5,745,484
Gross margin	1,247,800
Other income	31,762
Selling, general and administrative expenses	716,240
Earnings from operations	1,563,122
Finance income	1,234
Finance costs	6,371
Net earnings	1,558,984

Proposed under IFRS	IFRS Adjustments					
Proposed under IFRS	Total IFRS adjustments	TDS	Provisions	Property, plant & equipment	Non-pension employee benefits
		₹	₹	₹	₹
6,955,284	(56,629)	(56,004)	(25)	–	–
5,745,484	(56,807)	(56,807)	–	–	–
1,247,800	178	803	(25)	–	–
31,762	(383)	(333)	–	(3)	–
716,240	3,323	–	32	291	3,000
1,563,122	(3,528)	–	(57)	(288)	3,473
1,234	–	–	–	–	–
6,371	–	–	–	–	–
1,558,984	(3,528)	–	(57)	(288)	3,473

b. Explanation of IFRS adjustments

1. Actuarial losses

Under Canadian GAAP, the Board was using the corridor method to amortize actuarial gains and losses. Upon adoption of IFRS, the Board elected under IFRS 1 to recognize the cumulative actuarial losses for all non-pension employee benefits. As a result, all previously unrecognized actuarial losses as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of using the corridor approach under Canadian GAAP in the Board's March 31, 2011 financial year has been adjusted to reflect its policy under IFRS to recognize actuarial gains and losses immediately in either other comprehensive income in the comparative IFRS statements of comprehensive income or selling, general and administrative expenses in the comparative IFRS Statements of earnings.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings and Statements of other comprehensive income.

	March 31, 2011	April 1, 2010
Statements of financial position impact	$000's	$000's
Non-pension employee benefits	13,466	12,444
Retained earnings	(11,765)	(12,444)
Accumulated other comprehensive income	(1,701)	-

	March 31, 2011
Statements of earnings impact	$000's
Selling, general and administrative expenses	(679)
Net earnings impact	679

	March 31, 2011
Statements of comprehensive income impact	$000's
Actuarial losses adjusted through earnings	679
Actuarial losses recognized through other comprehensive income	(1,701)
Decrease in comprehensive income	(1,022)

2. Short-term employee benefits

Under Canadian GAAP, the Board recognized certain short-term employee benefits in the period these benefits were deemed to be a present legal obligation. Upon adoption of IFRS, the Board has adopted a policy to recognize these short-term employee benefits in the period the employee has rendered service in exchange for those benefits and those benefits are either deemed to be legal or constructive obligations.

As a result, all previously unrecognized short-term employee benefits as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

	March 31, 2011	April 1, 2010
Statements of financial position impact	($000's)	($000's)
Provisions	7,339	7,131
Retained earnings	(7,339)	(7,131)

	March 31, 2011
Statements of earnings impact	($000's)
Selling, general and administrative expenses	209
Net earnings impact	(209)

3. Non-pension employee benefits

IFRS requires that obligations for short-term or long-term compensated accumulated absences be recorded as an obligation as service is rendered by the employee. Canadian GAAP only addressed long-term accumulated absences that vest or are paid out on termination. Upon adoption of IFRS, the Board adopted an accounting policy to recognize an obligation for LTIP benefits once an employee is no longer providing active service.

As a result, all previously unrecognized benefits, as at April 1, 2010, have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

	March 31, 2011	April 1, 2010
Statements of financial position impact	($000's)	($000's)
Non-pension employee benefits	13,875	11,406
Retained earnings	(13,875)	(11,406)

	March 31, 2011
Statements of earnings impact	($000's)
Selling, general and administrative expenses	2,470
Net earnings impact	(2,470)

4. Property, plant and equipment

Under previous Canadian GAAP, the Board recognized certain tangible items ("items") as part of property, plant and equipment as required under Canadian GAAP. Upon adoption of IFRS, the Board has adopted a policy to no longer recognize these items within property, plant and equipment but rather charge these items to operating expenses in the Statement of earnings, in accordance with *"IAS 16 – Property, plant and equipment"*.

As a result, all previously recognized items included in property, plant and equipment, as at April 1, 2010, have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	March 31, 2011 ($000's)	April 1, 2010 ($000's)
Property, plant and equipment & intangible assets	(1,691)	(1,423)
Retained earnings	(1,691)	(1,423)

Statements of earnings impact	March 31, 2011 ($000's)
Selling, general and administrative expenses	291
Other income	23
Net earnings impact	268

5. Provisions

IFRS requires constructive obligations to be recognized as liabilities. Upon adoption of IFRS, the Board has adopted a policy to recognize these liabilities.

As a result, all previously unrecognized provisions, as at April 1, 2010, have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	March 31, 2011 ($000's)	April 1, 2010 ($000's)
Provisions	361	302
Retained earnings	(361)	(302)

Statements of earnings impact	March 31, 2011 ($000's)
Revenue	(25)
Selling, general and administrative expenses	32
Net earnings impact	(57)

6. The Beer Store (TBS)

Under previous Canadian GAAP, the Board recognized gross TBS program container deposits collected and paid within revenue and cost of sales, respectively. Upon transition to IFRS, the Board adopted a policy to offset TBS program deposits collected and paid. Thereby, certain comparative amounts for revenue, cost of sales and inventories have been reclassified with no significant impact on net income.

As a result, TBS program deposits, as at April 1, 2010, have been reclassified from inventories to trade and other receivables. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	March 31, 2011 *($000's)*	April 1, 2010 *($000's)*
Trade and other receivables	2,219	2,100
Inventories	(2,219)	(2,100)

Statements of earnings impact	March 31, 2011 *($000's)*
Revenue	(49,604)
Cost of sales	(49,807)
Other income	(203)
Net earnings impact	–

7. IFRS reclassification

The following reclassifications have been made to the Statements of financial position:

i. The current portion of "non-pension employee benefits" was reclassified to current liabilities under IFRS.

ii. "Provisions" recorded in "Trade and other payables" under Canadian GAAP were separately reclassified to "Provisions" under IFRS.

The following reclassifications have been made to the Statements of earnings:

iii. Unredeemed gift card income offset against "Retail stores and marketing" under Canadian GAAP were reclassified to "Revenues" under IFRS.

iv. Unredeemed container deposits offset against "Administration" under Canadian GAAP were reclassified to "Other income, net of costs" under IFRS.

v. Vendor allowances offset against "Retail stores and marketing" under Canadian GAAP were reclassified to "Cost of sales" under IFRS.

vi. Direct warehouse handling and outbound freight included in "Warehousing and distribution" under Canadian GAAP were reclassified to "Cost of sales" under IFRS.

vii. Other income included in "Sales and other income" under Canadian GAAP were reclassified to "Other income, net of costs" and "Finance income" under IFRS.

viii. "Retail stores and marketing", "Warehousing and distribution", "Administration" and "Amortization" expenses under Canadian GAAP were reclassified to "Selling general and administrative expenses" under IFRS.

ix. Interest expense related to non-pension employee benefits included in "Administration" under Canadian GAAP were reclassified to "Finance costs" under IFRS.

x. AIR MILES® reward miles were segregated between base miles and bonus miles. The base miles were reclassified as a reduction from revenue and the net income from bonus miles was reclassified to "Cost of sales" under IFRS.

26. OTHER MATTERS

The Minister of Finance announced in February 2012 that the LCBO's Head Office facility located in downtown Toronto is to be sold. The sale will be conducted as a multi-year phased project involving the offices and adjoining lands, the attached warehouse facility as well as the adjacent retail store. The planning for the various phases is underway with the first phase expected to be completed no earlier than December 2013.

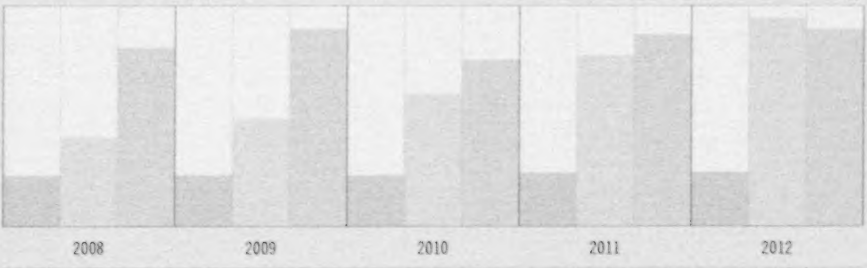
FINANCIAL OVERVIEW

The LCBO always strives to provide complete transparency in all its financial reporting and accounting; however, due to the transition to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), it was not always possible to provide comparable five-year data as in previous years.

OPERATIONS

	2008	2009	2010	2011	2012
LCBO stores	604	607	611	617	623
Number of Full-Time Equivalent employees	5,699	5,759	5,785	6,003	6,067
Total product listings	20,170	22,391	18,790	21,694	22,296

Key indicators: 2008–2012



FINANCIAL *(values in $000)*

	2011	2012
Total revenues	4,526,079	4,750,617
% change/previous year	4.2%	5.0%
Selling, general & administrative expenses & finance cost	720,611	745,693
As a % of total revenues	15.9%	15.7%
Net Earnings	1,559,984	1,658,234
As a % of total revenues	34.5%	34.9%

** Total revenues = Revenues + Other Income + Finance Income*

Financial Indicators: 2011 & 2012 *(values in $000)*

BREAKDOWN OF SG&A EXPENSES *(values in $000)*

	2011	2012
Salaries and benefits	395,906	409,740
Depreciation	52,166	50,870
Other expenses	268,168	280,378
Selling, general & administrative expenses	716,240	740,988

Selling, general & administrative expenses: 2011 & 2012 *(values in $000)*

REVENUE PAYMENTS

Treasurer of Ontario *(values in $000)*

	2008	2009	2010	2011	2012
Remitted by the Liquor Control Board: on account of profits	1,345,000	1,400,000	1,410,000	1,550,000	1,630,000
Remitted by the Liquor Control Board: Ontario retail sales tax on sales of liquor[1]	382,631	398,057	404,823	101,725	–
Remitted by the Alcohol and Gaming Commission: on account of licence fees and permits (replaced by Tax)[2]	475,325	468,024	460,236	180,710	9,090
Remitted by the Ministry of Revenue: beer and wine tax (replacing fees)[2]	–	–	–	397,000	555,000
Remitted by others:					
Ontario retail sales tax on sales through The Beer Store and Ontario Winery Retail Stores[1]	211,814	213,691	212,803	59,284	–
Ontario retail sales tax on sales through agency stores[1]	11,429	12,066	12,503	3,417	–
Total	2,426,199	2,491,838	2,500,364	2,292,137	2,194,090

1 Ontario Retail Sales Tax is no longer collected, as of July 1, 2010

2 Beer and wine tax, administered by the Ministry of Revenue, replaces beer and wine fees previously paid to the Alcohol and Gaming Commission of Ontario by breweries, microbreweries and wineries. There is no net new revenue for the province. The listed figure of $535 million for 2012 is an interim number. The figure for 2011 has been restated from interim to actual. Prior year numbers have been restated based on revised data from the AGCO.

REVENUE PAYMENTS (continued)

Receiver General for Canada *(values in $000)*

	2008	2009	2010	2011	2012
Remitted by the Liquor Control Board:					
Excise taxes and customs duties	339,202	346,477	346,072	344,804	351,865
Goods and Services Tax (GST) / Harmonized Sales Tax (HST)[3]	119,283	104,372	107,680	301,352	415,194
Remitted by others:					
Excise taxes, GST/HST and other duties/taxes[3]	349,420	344,870	348,275	484,420	476,981
GST/HST remitted on sales through agency stores[3]	5,557	5,027	5,210	11,764	14,352
Total	813,462	800,746	807,237	1,142,340	1,258,393

Ontario Municipalities *(values in $000)*

	2008	2009	2010	2011	2012
Remitted by the Liquor Control Board:					
Realty taxes[4]	15,792	16,606	18,256	19,712	21,039
Total revenue payments	3,255,454	3,309,190	3,325,857	3,454,189	3,473,521

3 Harmonized Sales Tax replaced the Goods and Services Tax, as of July 1, 2010. As of 2012, excise and HST for breweries are based on estimates.

4 Includes property taxes on leased properties.

VOLUME SALES (volume in 000 litres)

Product Type	2008	2009	2010	2011	2012	% change
Domestic Spirits	34,156	33,715	33,449	32,870	32,711	-0.5%
Imported Spirits	22,927	23,715	23,612	24,921	25,941	4.1%
Total Spirits	57,083	57,430	57,062	57,791	58,652	1.5%
Domestic Wine	35,522	36,362	37,448	38,753	40,240	3.8%
Imported Wine	86,847	89,211	92,062	95,364	97,837	2.6%
Total Wine	122,369	125,573	129,510	134,116	138,077	3.0%
Domestic Beer	91,590	92,531	97,981	106,842	110,577	3.5%
Imported Beer	122,817	130,084	132,980	130,617	131,268	0.5%
Total Beer	214,408	222,615	230,961	237,458	241,845	1.8%
Domestic Spirit Coolers	23,682	22,604	22,522	21,506	25,206	17.2%
Imported Spirit Coolers	6,082	6,232	5,194	5,944	4,416	-25.7%
Domestic Wine Coolers	0	0	0	0	0	0.0%
Imported Wine Coolers	266	197	146	138	141	2.1%
Domestic Beer Coolers	572	627	691	653	630	-3.4%
Imported Beer Coolers	193	110	16	14	4	-68.3%
Total Coolers	30,795	29,770	28,569	28,254	30,397	7.6%
Total Domestic	185,523	185,809	192,091	200,623	209,364	4.4%
Total Imported	239,132	249,549	254,011	256,996	259,607	1.0%
Total	424,655	435,388	446,102	457,619	468,971	2.5%

VOLUME SALES (continued) — Litres in 000's

Product Type	2008	2009	2010	2011	2012	% change
Sales by Ontario Winery Retail Stores	20,046	20,528	20,630	20,445	20,635	0.9%
Sales by The Beer Store & brewer on-site stores	680,237	672,330	657,940	643,227	637,025	-1.0%

Note: The 2011 sales figures for Ontario Winery Retail Stores, The Beer Store (TBS) and brewer on-site stores are unaudited and may understate total sales due to various wineries and breweries not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS, of 612,801 total beer sales in litres, 78,299,502 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

SHARE OF VOLUME SALES

	2010–11		2011–12	
	Litres 000	% of total	Litres 000	% of total
Spirits	57,791	13%	58,652	13%
Wine	134,116	29%	136,077	29%
Beer	237,458	52%	241,845	52%
Coolers	28,254	6%	30,397	6%
	457,619	100%	468,971	100%

VALUE SALES (millions in $000)

Product Type	2008	2009	2010	2011	2012	% change
Domestic Spirits	675,353	695,716	683,328	903,994	921,257	1.9%
Imported Spirits	686,789	716,000	716,795	783,059	834,952	6.6%
Total Spirits	1,362,143	1,411,716	1,412,123	1,687,053	1,756,208	4.1%
Domestic Wine	338,829	358,580	374,445	401,176	422,705	5.4%
Imported Wine	1,180,669	1,225,382	1,213,069	1,299,903	1,378,348	6.0%
Total Wine	1,519,497	1,583,941	1,587,513	1,701,079	1,801,053	5.9%
Domestic Beer	311,035	333,494	341,927	388,336	410,819	5.8%
Imported Beer	490,972	526,502	548,106	551,174	569,905	3.4%
Total Beer	802,007	860,497	890,034	939,510	980,724	4.4%
Domestic Spirit Coolers	130,523	124,858	124,428	121,253	141,116	16.4%
Imported Spirit Coolers	36,631	38,548	32,801	37,034	28,352	-23.4%
Domestic Wine Coolers	1	0	0	0	0	0.0%
Imported Wine Coolers	1,702	1,267	950	925	954	3.2%
Domestic Beer Coolers	2,533	2,826	2,997	3,017	2,864	-5.1%
Imported Beer Coolers	895	470	85	74	24	-67.9%
Total Coolers	172,289	167,969	161,271	162,360	173,660	6.6%
Total Domestic	1,658,263	1,694,464	1,727,135	1,817,776	1,898,762	4.5%
Total Imported	2,397,662	2,519,670	2,529,806	2,672,578	2,812,884	5.2%
Non Liquor and Other	6,369	6,598	6,050	1,559	1,057	-174.2%
Total	4,062,293	4,220,732	4,257,990	4,491,911	4,710,699	4.9%

[illegible]

Product Type	2008	2009	2010	2011	2012	% change
Sales by Ontario Winery Retail Stores	198,612	210,271	215,334	223,508	231,594	3.6%
Sales by The Beer Store & known on-site stores	2,283,929	2,294,746	2,230,877	2,204,292	2,286,409	1.4%

Note: Per 2012 sales figures for Ontario Winery Retail Stores. Per Beer Store, 2012 was known as on-store on unaudited read-way applicable retail sales due to various reasons or finance and reporting by the beer establishment. Total sales season prior sales for 2008 retail Ontario Winery Stores. 2008 store sales figures exclude 2,000 sales in 2008, 2010 2011 retail food sales, 2008-2012 and in 2004. Price and figures are reviewed annually to reflect changes in product formulas.

[illegible] BY VALUE SALES

2011–12	2010–11		2011–12	
	$ mm	% of total	$ mm	% of total
Spirits	1,687,202	37%	1,704,208	37%
Wine	1,701,279	38%	1,801,350	39%
Beer	939,510	21%	980,759	21%
Coolers	102,960	4%	175,092	4%
	4,430,752	100%	4,711,646	100%

PRODUCT LISTINGS

	2008	2009	2010	2011	2012
Domestic					
Spirits	442	504	420	382	386
Wine	802	910	910	945	956
Beer	677	670	608	698	729
Imported					
Spirits	674	696	686	812	858
Wine	1,208	1,122	980	1,202	1,249
Beer	316	364	355	349	351
Total regular listings	3,978	4,710	4,407	4,388	4,571
Wholesale wines and spirits	8,307	9,698	9,256	9,178	8,987
Duty free listings	331	300	311	334	336
Consignment warehouse and private ordering	8,604	11,760	8,856	11,311	12,306
Total product listings	20,170	22,390	18,790	21,894	22,256

Note: Prior year figures for transparent reclassified to conform with current year presentation.
We could have won a few more awards if there was a category for drinking the most wine.

ONTARIO SALES CHANNEL SUMMARY[1] *(volume sold in 000 litres)*

	2008	2009	2010	2011	2012
LCBO total sales	424,484	435,284	445,963	457,511	468,970
The Beer Store total sales	750,552	744,800	735,172	725,862	725,181
Winery Retail Stores	20,046	20,525	20,627	20,445	20,633
Other channels:					
Legal	46,805	48,631	51,994	50,110	51,223
Homemade	14,106	14,186	16,277	16,669	17,537
Illegal	32,135	34,110	38,787	37,474	40,924
Grand total	1,288,128	1,297,536	1,308,800	1,308,070	1,324,467

Note: All figures above are shown in litres. Sales volume reported under the Other Channels category are estimates. Previous years may be restated for new information received. LCBO and TBS figures are slightly overstated due to wrapparound sales included in the totals. These sales are excluded in the table below.

SHARE OF ONTARIO BEVERAGE ALCOHOL MARKET BY VOLUME

	2012	2011
LCBO	34.8%	34.1%
The Beer Store	54.1%	55.4%
Other Legal	5.8%	5.7%
Illegal	3.5%	3.1%
Winery Retail Stores	1.8%	1.7%
	100.0%	100.0%

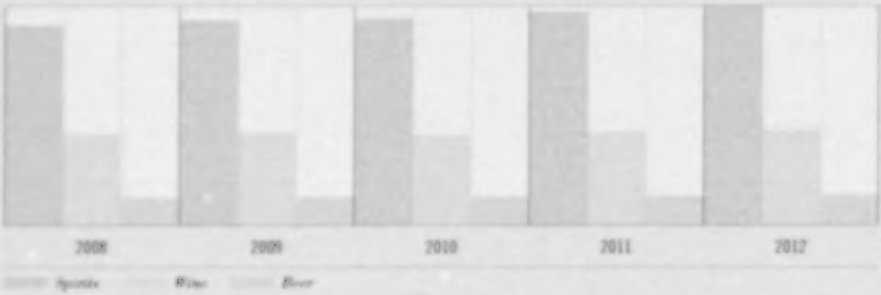
1 *In past LCBO Annual Reports, the table and the related share of Ontario Beverage Alcohol Market table were based on gross dollar sales data. Sales volume reported under the Other Channels category were based on estimates for volume then converted to sales using the average retail price for spirits, wine and beer sold under the LCBO, Winery Retail Stores (WRS) and TBS respectively. This methodology inflated the true size of these channels. Changing to volume sales in litres provides a truer sense of the strength of each sales channel.*

AVERAGE LCBO NET SALES PER LITRE *(prices exclude HST, GST, and PST)*

Product Type	2008	2009	2010	2011	2012
Spirits	$ 27.37	$ 28.06	$ 28.25	$ 29.19	$ 29.94
Wine	$ 12.42	$ 12.61	$ 12.26	$ 12.68	$ 13.04
Beer	$ 3.74	$ 3.82	$ 3.85	$ 3.96	$ 4.06
Average transaction value per customer	$ 36.91	$ 37.20	$ 36.38	$ 36.99	$ 38.79

Note: Includes coolers

Average LCBO net sales per litre: 2008–2012



REVENUE DISTRIBUTION

	Domestic Spirits	100% Ontario Wine	Ontario Beer
Supplier	23%	45%	47%
LCBO Mark-up	52%	44%	19%
Federal Taxes & HST*	25%	12%	34%
Deposit**			

** Note: HST is collected by the Federal Government and a portion is later distributed back to the Province of Ontario.*
*** Note: Deposit collected on the sale of wine, spirits and beer is recorded as a liability, not revenue.*

The tables below show the share of volume sales (in litres) held by various segments within major product categories.

LCBO LITRE SALES BY CATEGORY 2008–2012

	2008	2009	2010	2011	2012
Canadian Spirits					
Canadian Whisky	16.8%	16.7%	16.8%	16.3%	15.7%
Canadian Rum	8.7%	8.8%	8.9%	8.8%	8.4%
Canadian Vodka	9.9%	9.9%	10.1%	10.0%	9.7%
Canadian Liqueur	2.5%	2.4%	2.3%	2.3%	2.2%
Spirit Coolers	27.3%	26.3%	26.4%	25.1%	28.6%
Canadian Dry Gin	0.8%	0.7%	0.7%	0.6%	0.6%
Other	0.8%	0.8%	1.0%	1.0%	0.6%
Imported Spirits					
Scotch	4.4%	4.4%	4.3%	4.4%	4.3%
Liqueur	3.4%	3.2%	3.2%	3.1%	2.9%
Miscellaneous Liquors	3.9%	4.0%	4.0%	4.0%	4.0%
Vodka	6.2%	7.0%	7.4%	7.9%	8.0%
French Brandy	2.0%	2.0%	2.0%	1.9%	1.8%
Spirit Coolers	7.0%	7.2%	6.1%	7.0%	5.0%
Other	6.3%	6.8%	6.8%	7.8%	8.2%
Total Spirits *(000 litres)*	86,621	86,048	84,521	85,002	88,033
Canadian Wines					
White Table	14.3%	14.2%	14.2%	14.2%	14.4%
Red Table	9.2%	9.3%	9.1%	8.9%	8.9%
Rosé Table	1.0%	1.0%	1.0%	1.0%	1.0%
7% Sparkling	1.2%	1.1%	1.1%	1.0%	0.9%
Fortified	1.5%	1.5%	1.4%	1.3%	1.3%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.7%	0.8%	1.1%	1.5%	1.7%

LCBO LITRE SALES BY CATEGORY 2008–2012 (continued)

	2008	2009	2010	2011	2012
Imported Wines					
White Table	22.6%	22.2%	22.1%	22.3%	22.6%
Red Table	39.6%	40.2%	40.3%	40.0%	39.4%
Rosé Table	0.7%	0.7%	0.8%	0.9%	0.9%
Sparkling	2.3%	2.2%	2.2%	2.4%	2.4%
Fortified	1.4%	1.4%	1.3%	1.2%	1.2%
Wine Coolers	0.2%	0.2%	0.1%	0.1%	0.1%
Other	5.4%	5.4%	5.5%	5.3%	5.3%
Total Wine *(000 litres)*	115,118	117,940	122,041	125,890	129,281
Canadian Beer					
Ontario Beer	42.2%	42.1%	42.9%	45.6%	46.3%
Other Canadian Beer	2.9%	2.6%	2.6%	2.7%	3.1%
Imported Beer					
U.S. Beer	8.8%	8.4%	8.1%	7.5%	8.0%
Other Imported Beer	46.0%	46.9%	46.3%	44.1%	42.6%
Saké	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer *(000 litres)*	195,432	203,005	211,505	216,935	219,697
Total *(000 litres)*	397,171	406,993	418,067	427,827	437,011

Notes: These figures exclude Private Ordering and other head office sales. Prior year figures are restated annually to reflect changes in product hierarchy.

The tables below show the share of net sales held by various segments within major product categories.

LCBO NET SALES BY CATEGORY 2008–2012

	2008	2009	2010	2011	2012
Canadian Spirits					
Canadian Whisky	21.9%	21.6%	21.5%	20.9%	20.5%
Canadian Rum	11.0%	11.1%	11.2%	11.2%	10.9%
Canadian Vodka	12.7%	12.6%	12.7%	12.6%	12.6%
Canadian Liqueur	2.9%	2.7%	2.6%	2.5%	2.4%
Spirit Coolers	7.6%	7.1%	7.0%	6.5%	7.3%
Canadian Dry Gin	1.0%	0.9%	0.9%	0.8%	0.7%
Other	1.2%	1.2%	1.3%	1.2%	0.8%
Imported Spirits					
Scotch	7.8%	7.8%	7.8%	8.0%	8.0%
Liqueur	5.1%	4.8%	4.6%	4.5%	4.3%
Miscellaneous Liquors	5.7%	5.7%	5.5%	5.4%	5.3%
Vodka	8.6%	9.7%	10.3%	11.0%	11.3%
French Brandy	3.6%	3.5%	3.4%	3.4%	3.4%
Spirit Coolers	2.1%	2.2%	1.9%	2.0%	1.5%
Other	8.8%	9.3%	9.4%	10.1%	10.9%
Total Spirits *($000)*	1,724,763	1,770,955	1,764,434	1,841,573	1,920,886
Canadian Wines					
White Table	10.3%	10.5%	10.9%	11.0%	11.0%
Red Table	7.2%	7.4%	7.6%	7.5%	7.4%
Rosé Table	0.7%	0.7%	0.8%	0.8%	0.7%
7% Sparkling	0.7%	0.7%	0.6%	0.6%	0.6%
Fortified	1.1%	1.2%	1.2%	1.2%	1.1%
Wine Coolers	0.0%	0.0%	0.0%	0.0%	0.0%
Other	1.1%	1.1%	1.2%	1.4%	1.5%

LCBO NET SALES BY CATEGORY 2008–2012 (continued)

	2008	2009	2010	2011	2012
Imported Wines					
White Table	22.2%	22.0%	22.0%	22.2%	22.5%
Red Table	46.6%	46.8%	45.8%	45.7%	45.5%
Rosé Table	0.7%	0.7%	0.7%	0.9%	0.8%
Sparkling	4.3%	4.1%	4.1%	4.3%	4.4%
Fortified	1.7%	1.7%	1.6%	1.5%	1.4%
Wine Coolers	0.1%	0.1%	0.1%	0.1%	0.1%
Other	3.3%	3.1%	3.3%	3.0%	3.0%
Total Wine *($000)*	1,404,327	1,460,221	1,472,171	1,570,720	1,659,521
Canadian Beer					
Ontario Beer	37.7%	37.8%	38.3%	41.8%	41.9%
Other Canadian Beer	3.2%	3.0%	3.0%	3.1%	3.4%
Imported Beer					
U.S. Beer	8.1%	7.2%	8.1%	7.2%	7.8%
Other Imported Beer	50.6%	51.7%	50.4%	47.7%	46.5%
Saké	0.4%	0.3%	0.3%	0.3%	0.4%
Total Beer *($000)*	735,075	776,011	816,217	908,348	891,591
Total *($000)*	3,864,165	4,007,187	4,052,822	4,320,641	4,471,999

Notes: These figures exclude Private Ordering and other head office sales. Prior year figures are restated annually to reflect changes in product hierarchy.

LCBO SALES BY COUNTRY OF ORIGIN 2011–12 – SPIRITS

Country	Net Sales ($)	Litres
Canada	$ 1,055,255,901	57,706,648
United Kingdom	$ 219,594,366	7,468,399
United States	$ 149,349,259	7,212,239
France	$ 118,833,338	2,752,204
Ireland	$ 66,957,384	2,120,333
Sweden	$ 63,398,750	2,310,321
Mexico	$ 52,668,854	1,571,776
Italy	$ 37,830,564	1,303,852
Germany	$ 27,034,438	884,575
Poland	$ 21,560,968	640,762
Latvia	$ 15,258,851	538,052
Finland	$ 13,253,563	463,851
Russia	$ 7,270,096	260,443
Jamaica	$ 6,930,319	209,574
New Zealand	$ 6,656,159	648,904
Barbados	$ 6,151,620	223,170
Netherlands	$ 6,024,257	192,523
Cuba	$ 5,847,078	189,859
Trinidad	$ 4,905,743	146,551
Guyana	$ 4,207,710	118,879
Greece	$ 3,667,806	139,575
South Africa	$ 3,024,660	107,054
Switzerland	$ 2,657,530	77,457
South Korea	$ 2,080,041	143,371
Portugal	$ 1,955,497	60,523
China	$ 1,655,882	17,292
Ukraine	$ 1,547,679	50,526
Bermuda	$ 1,535,720	53,423
Spain	$ 1,508,483	57,005
Nicaragua	$ 1,243,512	42,235
Croatia	$ 1,106,302	37,067
Serbia	$ 991,350	31,245
Puerto Rico	$ 987,716	20,167
Hungary	$ 963,044	29,973
Bahamas	$ 779,099	21,164
Virgin Islands, U.S.	$ 694,425	23,995

LCBO SALES BY COUNTRY OF ORIGIN 2011–12 – SPIRITS (continued)

Country		Net Sales ($)	Litres
Austria	$	693,746	16,461
Dominican Republic	$	672,266	22,214
Lebanon	$	663,694	22,703
Czech Republic	$	464,450	7,656
Brazil	$	428,314	13,330
Japan	$	424,865	7,580
Colombia	$	410,193	13,564
India	$	392,588	13,748
Turkey	$	217,709	6,058
Bulgaria	$	201,471	6,104
Denmark	$	200,373	5,495
Guatemala	$	123,810	5,055
Israel	$	80,075	2,699
Republic of Moldova	$	53,829	1,696
Peru	$	50,569	1,495
Chile	$	47,071	1,612
Republic of Armenia	$	41,642	837
Saint Lucia	$	38,510	663
Norway	$	32,355	991
Philippines	$	32,148	1,199
Belarus	$	28,256	1,044
Lithuania	$	27,943	954
Haiti	$	26,913	767
Panama	$	24,588	855
Georgia	$	23,887	487
Australia	$	22,839	855
Taiwan	$	20,272	101
Sri Lanka	$	15,388	525
Estonia	$	11,818	345
Belgium	$	7,710	36
Iceland	$	6,485	176
Thailand	$	5,635	207
Malta	$	4,640	146
El Salvador	$	2,370	95
Total	$	1,920,886,386	88,032,740

LCBO SALES BY COUNTRY OF ORIGIN 2011–12 – WINE

Country		Net Sales ($)	Litres
Canada	$	371,352,766	36,425,127
Italy	$	295,870,885	21,947,295
Australia	$	214,445,693	14,097,401
United States	$	208,610,425	13,830,293
France	$	186,470,782	10,609,093
Chile	$	93,320,583	8,521,075
Argentina	$	84,200,520	7,303,660
South Africa	$	42,878,416	3,581,775
New Zealand	$	41,025,584	1,993,538
Spain	$	40,763,651	2,601,043
Portugal	$	28,213,709	2,112,345
Germany	$	23,928,855	1,923,974
United Kingdom	$	13,019,306	2,566,739
Greece	$	3,366,425	298,637
Hungary	$	2,594,539	250,419
Ireland	$	2,402,613	483,036
Japan	$	2,106,496	111,339
Sweden	$	1,519,397	301,670
Israel	$	1,094,195	53,535
Serbia	$	857,428	89,534
Austria	$	820,000	45,662
Belgium	$	615,131	104,298
Georgia	$	585,782	40,945
Romania	$	505,197	42,915

LCBO SALES BY COUNTRY OF ORIGIN 2011-12 – WINE (continued)

Country		Net Sales ($)	Litres
Mexico	$	453,943	33,202
Jamaica	$	352,935	28,776
Bulgaria	$	348,670	37,321
Poland	$	238,557	14,907
Montenegro	$	205,697	18,364
South Korea	$	203,679	10,804
Ukraine	$	160,706	7,841
Republic of Macedonia	$	116,785	10,677
Uruguay	$	106,798	6,531
China	$	80,650	4,578
Lebanon	$	63,910	1,890
Switzerland	$	44,102	2,313
Brazil	$	36,245	1,801
Luxembourg	$	34,680	1,756
Cyprus	$	28,374	2,005
Slovenia	$	23,405	1,877
Denmark	$	18,341	1,485
Croatia	$	15,510	791
India	$	8,410	705
Republic of Moldova	$	7,919	647
Turkey	$	6,178	653
Morocco	$	6,149	492
Total	$	1,663,130,021	129,524,764

LOBO SALES BY COUNTRY OF ORIGIN 2011-12 - 0039

Country		Net Sales ($)	Litres
Canada	$	403,559,721	108,380,759
Netherlands	$	111,702,512	24,317,172
Mexico	$	89,597,899	19,936,792
United States	$	69,418,404	17,535,299
Belgium	$	51,171,579	10,478,189
Germany	$	37,496,662	9,957,758
United Kingdom	$	29,976,286	5,772,502
Ireland	$	19,670,263	3,776,851
Denmark	$	14,757,816	3,764,080
Poland	$	14,075,741	3,773,380
Czech Republic	$	9,110,926	2,399,927
Turkey	$	7,362,456	2,231,042
France	$	5,696,214	1,234,654
Austria	$	5,467,563	1,631,271
Jamaica	$	3,915,205	766,172
Italy	$	3,407,931	663,979
China	$	1,659,307	401,875
Singapore	$	1,348,558	389,956
Slovakia	$	1,080,276	241,561
Trinidad	$	1,031,102	263,301
Thailand	$	838,533	165,476
Japan	$	636,750	149,397
Portugal	$	561,068	136,819
Spain	$	538,843	142,526
Slovenia	$	511,669	144,492
Australia	$	510,257	130,475
Russia	$	501,721	126,665
Croatia	$	371,586	92,690
Romania	$	287,235	82,245
Ukraine	$	277,959	68,498
Sri Lanka	$	217,281	43,792
Greece	$	206,313	44,205

LESS SALES BY COUNTRY OF ORIGIN 2011-12 – 2010 (continued)

Country		Net Sales ($)	Litres
Lithuania	$	190,709	48,514
Kenya	$	176,143	51,573
Philippines	$	175,102	38,049
Bosnia and Herzegovina	$	97,747	25,200
South Korea	$	73,879	15,409
Iceland	$	71,108	8,050
Barbados	$	66,863	14,527
Vietnam	$	53,179	11,588
New Zealand	$	39,092	8,916
Norway	$	34,187	3,144
Colombia	$	22,494	4,358
Libya	$	14,621	4,295
Brazil	$	887	192
Estonia	$	427	117
Total	$	667,960,342	219,473,387

Note: Net sales represent net sales excluding gallonage sold to the local LCBO retail system from the different countries.

Credits

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